

STATE OF NEW MEXICO

REPORT OF THE LEGISLATIVE FINANCE COMMITTEE
TO THE FIFTY FIRST LEGISLATURE
FIRST SESSION

JANUARY 2013
FOR FISCAL YEAR 2014

VOLUME I



LEGISLATING FOR RESULTS:
POLICY AND PERFORMANCE ANALYSIS

State of New Mexico
Legislative Finance Committee

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January 15, 2013

Honorable Members
Fifty-First Legislature, First Session
State Capitol
Santa Fe, New Mexico 87501

Dear Fellow Legislators:

Pursuant to Section 2-5-4 NMSA 1978, the fiscal year 2014 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is \$5.883 billion, \$233 million more than the FY13 operating budget. With the economic recovery continuing at a lackluster pace, the committee chose a cautious approach to new spending. This recommendation, with spending levels just 4 percent over those of FY13, would leave operating reserves at nearly 12 percent, a prudent path in light of the many financial risks in play. Potentially, New Mexico could face severe cuts in federal spending, feel the effects of a deeper recession in the European Union, or a drop in energy revenues.

The committee's recommendation continues to emphasize education, health care, early childhood, and public safety. In addition, \$32 million of the recommended increase in general fund spending would be used to give state employees, teachers, and support staff an average 1 percent pay increase. The Legislature has not approved a pay increase for state employees since 2008.

The committee's general fund recommendation of \$2.5 billion for public schools is an increase of 3.7 percent, or \$91 million, from the FY13 appropriation. The recommendation for higher education is \$785.5 million, a 3.7 percent increase from the FY13 appropriation, or \$27.8 million. The recommendation reflects the implementation of a new funding formula that emphasizes course and degree completion over enrollment. The recommendation includes \$16.2 million for prekindergarten, childcare assistance, home visits for the families of newborns and other early childhood programs.

The committee recommends a \$940 million general fund appropriation for Medicaid, a \$34.8 million increase, or 3.9 percent over FY13 to replace tobacco revenue and reflects the department's projections of moderate program growth and success in bringing down Medicaid costs. The recommendation includes \$299.8 million from the general fund for the Health Department, including \$4.6 million to reduce the waiting list for services under the Medicaid waiver program for the developmentally disabled.

Finally, the committee recommendation includes a 3.7 percent increase for the Department of Public Safety with funding to replace vehicles and raise pay to improve the recruitment and retention of public safety officers.

I would like to thank the membership of the Legislative Finance Committee for their hard work on behalf of the people of New Mexico and the LFC staff for its thoughtfulness and diligence on this very difficult task. Together, we have prepared a responsible budget that protects critical services and vulnerable citizens.

Sincerely,

A handwritten signature in black ink, appearing to read "John Arthur Smith".

Senator John Arthur Smith
Chairman

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VOLUME I LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

**JANUARY 2013
FOR
FISCAL YEAR 2014**

SENATOR
JOHN ARTHUR SMITH
CHAIRMAN

REPRESENTATIVE
LUCIANO "LUCKY" VARELA
VICE CHAIRMAN

DAVID ABBEY
DIRECTOR



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Recommendations & Highlights

The recent recession hit New Mexico later than other states and now the recovery continues a path of slow, but sustained, growth. Lawmakers acted responsibly in finding savings and setting budget priorities during the lean times and did so again in 2012, when new money became available to meet acute state needs. Maintaining a steadfast position of prioritizing state needs – health care, education, early childcare, and public safety – lawmakers are positioned to adequately fund government services while also maintaining healthy general fund reserves.

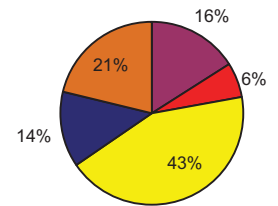
In FY12, general fund revenues exceeded appropriations by \$293.3 million, resulting in a reserve balance of 13.8 percent. However, a growing concern regarding the specter of automatic federal spending cuts and expiring temporary tax cuts raised concerns over the pace of New Mexico's recovery. Against this backdrop, the December 2012 revenue estimates added little growth to FY13 and projected \$283 million of new money for FY14.

FY14 Budget and Methodology. The committee's FY14 budget guidelines proposed a balanced budget that preserves services for education, early childhood investment, public health and safety, and protecting vulnerable citizens with maintaining general fund reserves above 10 percent. Consistent with these objectives, the committee recommends total general fund spending of \$5.88 billion, \$233.1 million more than the FY13 operating level and an amount that would leave reserves at 11.8 percent.

Agencies requested spending levels 6 percent over FY13 appropriation levels; however, the committee recommended an average increase of 3.6 percent for all state-funded agencies, with the average for public schools and higher education slightly higher at 3.7 percent. With compensation increases, the recurring general fund appropriation totals \$5.883 billion, or a 4.1 percent increase from FY13 levels.

Other Financial Issues. The committee recommendation maintains a fiscally responsible level of reserves because of national and statewide policy changes on the immediate horizon. The federal government's efforts to balance its budget, by significantly reducing discretionary funding, will impact New Mexico which receives more than \$5.5 billion of federal funds annually. Changes to state policies to improve public employee pension and unemployment insurance funds solvency will require benefit changes and additional funding. Equalizing public school funding and strengthening the state's largest student financial aid program for postsecondary education put pressure on using nonrecurring general fund revenues. Lastly, years of reduced funding for maintenance and preservation of aging infrastructure – roads, highways, and bridges; water dams, diversions, and treatment systems; and public facilities – require prioritization, plans for sustainability, and likely additional funding from all government sources.

FY14 Recurring General Fund Appropriation Recommendation: \$5.88 billion

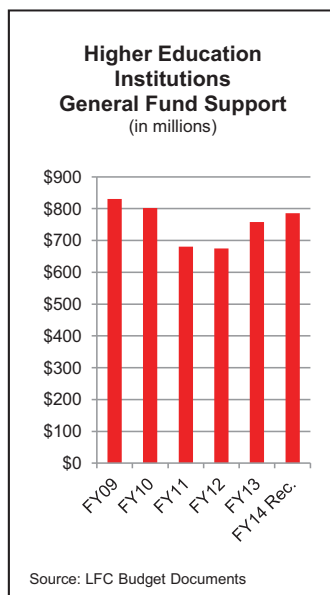
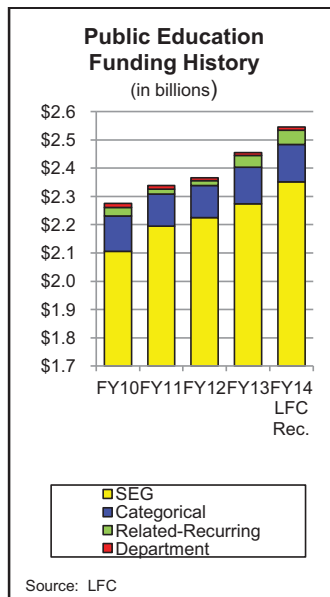


■ Medicaid: \$940 million
■ Public Safety: \$363 million
■ Public Schools: \$2,546 million
■ Higher Education: \$785 million
■ Other: \$1,248 million

FY14 LFC General Fund Recommendation Priorities (in millions)

\$31.2	Compensation increase 1%
\$0.9	Step pay plan for state police and motor trans. officers 3%
\$38.4	Retirement swap 1.5%
\$15.8	ERB increase 0.75%
Education	
\$23.0	Formula adjustment for at-risk students
\$11.0	Insurance increase
\$15.4	Higher education outcome-funding
Early Childhood	
\$5.5	PreK
\$5.5	K-3 Plus
\$3.5	Childcare
\$1.8	Home visits
Public Health and Safety	
\$35.0	Medicaid increases
\$4.6	DD waiver increases
\$2.6	Expanding Ft. Stanton Juvenile Detention
\$4.8	Community-based parole treatment
\$5.0	Courts
\$29.0	Other
\$233.0	Total

Recommendations & Highlights



Education. Following an increase of \$105.5 million, or 3.5 percent, in recurring general fund appropriations for education in FY13, the committee recommends an additional \$118.6 million in recurring general fund appropriations for FY14. The FY14 increase does not include the committee's recommended 1 percent compensation increase. Of the total FY14 general fund recommendation, \$3.35 billion is committed to public and higher education.

Public Schools. The committee recommends \$2.5 billion in overall education funding, an increase of almost \$91 million, or 3.7 percent, over FY13 appropriations. This excludes the recommended 1 percent compensation increase but includes funding for increased employer retirement contributions and insurance premiums, enrollment growth, and funding formula reform that includes increasing the weight for at-risk students and beginning to align the training and experience index with the three-tiered licensure system. Stakeholders should continue to focus on updating other key components of the funding formula to promote improved equity while recognizing disparity in size, simplifying the formula, minimizing administrative burdens, and aligning the formula to modern education policy. The committee continues to recognize the importance of early childhood intervention, and increases funding for Kindergarten-Three-Plus and prekindergarten by almost \$5.5 million each. These programs target at-risk students and demonstrate a high return on investment.

Higher Education. The general fund recommendation for higher education is \$785.5 million, an increase of \$27.8 million from the FY13 appropriation and in addition to the recommended 1 percent compensation increase. The increase would fund two statutorily required retirement provisions – a shift of 1.5 percent of the employee retirement contributions to the employer and a 0.75 employer contribution rate increase – for a total of \$10.9 million. Continuing the direction of allocating more state funding based on student and institutional performance outcomes in the instruction and general (I&G) funding formula, the recommendation appropriates \$22.2 million for the student credit hour workload outcome measure and the statewide outcome measures based on the increases and decreases in the number of certificates and degrees granted. The recommendation reduces the formula outcomes funding by \$2.7 million by taking credit for an amount of land grant permanent fund and mill levy revenues.

In addition to the retirement fund increases, an increase of \$1.6 million was added to research and public service projects over FY13 general fund levels. The recommendation prioritized programs that focus on economic development; health, welfare, and community services; and science, technology, engineering, and math (STEM) outreach. Many of these programs include student participation, supporting I&G funding formula efforts to improve student performance and graduation rates.

Early Childhood. According to national rankings, New Mexico's youngest children experience a multitude of risk factors including

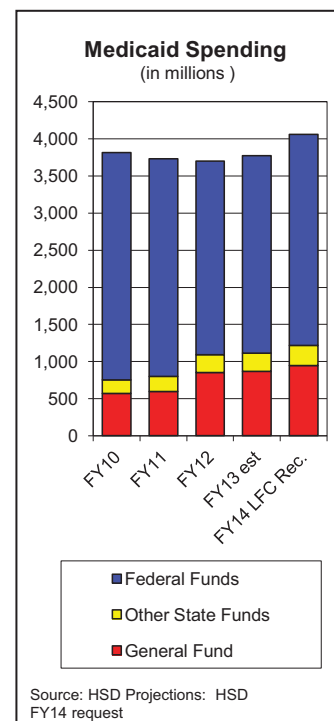
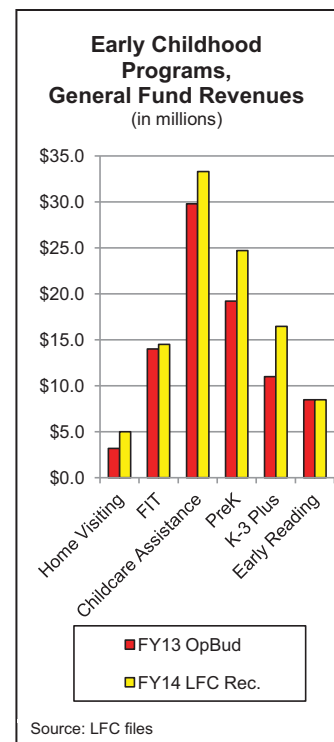
Recommendations & Highlights

preterm births, low birth weight, infant mortality, poverty, and child abuse and neglect. These risk factors lead to toxic stress, or trauma, which have lifelong negative health and social impacts. Program development and additional funding are necessary investments to produce better outcomes for New Mexico's infants and toddlers. High-quality early childhood prevention and intervention programs, such as home visiting, produce future savings on special education, remedial education, teenage pregnancy, juvenile rehabilitation, and welfare assistance. The committee recommendation adds \$5.5 million for K-3 Plus and \$5.5 million in PreK at the Public Education Department; \$7 million for childcare assistance and \$1.8 million for home-visiting services at the Children, Youth and Families Department; and \$500 thousand for the Family, Infant, Toddler (FIT) Program at the Department of Health.

Medicaid. The committee general fund recommendation for Medicaid is \$940 million, a \$34.8 million, or 3.9 percent increase compared with FY13. Highlights of the recommendation include \$19.2 million to replace tobacco fund revenue and \$17.7 million for costs related to the Affordable Care Act (ACA). It also includes \$10.7 million in efficiency savings from new managed-care contracts.

What the Medicaid program will look like in New Mexico under federal healthcare reform in 2014 is unclear. As of December, the governor had not decided on the ACA-authorized expansion of Medicaid for low-income adults. If the governor decides to move forward with the expansion, LFC staff project it could be implemented in FY14 with minimal additional funding. In addition, the Human Services Department (HSD) has submitted a request for a waiver from federal Medicaid rules to implement Centennial Care and is awarding new managed-care contracts to fewer providers (which will provide all services for Medicaid clients). The department is projecting moderate program growth in FY14 based on assumptions about enrollment growth and cost per-client, a reflection of the department's success in bringing down Medicaid costs in last few fiscal years.

Department of Health. The Department of Health recommendation includes a FY14 total budget of \$541.6 million, with general fund revenue totaling \$299.8 million, an increase of 2.7 percent over FY13. The general fund recommendation includes an increase of \$4.6 million for the Developmental Disabilities Medicaid waiver program which, accounts for the enhanced federal match rate and is intended to serve people on the waiting list for services. At the end of FY12, 3,888 developmentally disabled clients were receiving services under the Developmental Disabilities Medicaid Waiver Program, but 5,911 were on the waiting list to receive services. The general fund recommendation also includes \$2 million for a new 20-bed inpatient adolescent substance abuse treatment unit at Turquoise Lodge in Albuquerque; an additional \$500 thousand for the Family, Infant, Toddler (FIT) Medicaid program; and an increase of \$400 thousand for sexual assault treatment contracts.



Recommendations & Highlights



Public Safety. The New Mexico Corrections Department budget request was essentially flat with FY13 operating budget levels. The request and committee recommendation merges 17 FTE and \$3.2 million from the Community Corrections Program into the Community Offender Management Program, reducing duplication. In response to a June 2012 LFC evaluation recommending the development of more community-based resources for hard-to-place inmates, the request included \$8.2 million for a contract to create a new sex-offender unit at the Otero County Correctional Facility (OCCF). The committee recommendation does not support the new contract because the OCCF is not a community-based resource and planned operations do not resemble the recommendation from the LFC evaluation.

The committee recommendation for the Department of Public Safety (DPS) includes \$94.6 million in general fund revenues, a 3.7 percent increase above the FY13 operating budget. The increase includes \$1.9 million to fund fleet replacement within the base budget. To address the department's chronically high vacancy rate, largely due to non-competitive compensation, the committee recommendation provides sufficient resources to increase officer pay by one step in the DPS step pay plan, or about 3 percent.

Compensation. The committee recommends \$32.2 million from the general fund be used for compensation increases. The compensation increase will average 1 percent for all state public employees, including teachers and support staff funded primarily with general fund revenues. The action acknowledges that state public employees have not received a salary increase from the Legislature since July 2008. Further, according to the *2012 Classified Service Compensation Report* from the State Personnel Office, salaries for state public employees have not kept pace with inflation or changes in the public and private sector salary market. Data aggregated by the Legislative Finance Committee indicates that while the number of state classified employees declined over the last several years, appropriations for personal services and employee benefits have risen, leaving some additional flexibility for agencies to address recruitment difficulties or the entire Legislature to consider other salary adjustments.

After four years without compensation increases, the committee recommends a 1 percent increase to average base salaries, totaling \$32.1 million. It also recommends \$900 thousand for a one-step, or 3 percent, increase for state police and motor transportation officers. The committee recommendation reverses the 2011 "retirement swap," with employers assuming the 1.5 percent pension fund contribution that has been paid for the last few years by employees, and funds a long-scheduled 0.75 percent employer increase for the education retirement board. The general fund cost of the retirement contribution increases are \$54.2 million, bringing the total appropriation increase for compensation to \$86.2 million.

Recommendations & Highlights

These compensation and benefit increases are recurring and include salaries, Social Security and Medicare taxes, retirement, and retiree health care. The committee recommends the increases become effective July 1, 2013.

Transportation. The committee recommends total expenditures of \$849.8 million for the Department of Transportation, an increase of \$14.3 million, or 1.7 percent, from the FY13 operating budget. The agency receives no general fund monies and relies on federal and state road fund revenue. For FY14, the department requested approximately \$160 million in debt service and debt service principal related to bonds issued for transportation infrastructure. Approximately \$23 million of this request is related to the Rail Runner. The FY14 projection for state road fund revenues – used by the department to create the FY14 budget submission – is relatively flat with previous estimates, and the department does not expect to attain previous peak state road fund revenue levels until FY16 at the earliest. The department estimates the gap between road maintenance needs and available resources at over \$225 million and a current construction gap of \$304 million. More than \$1 billion in major investment needs exist across the state, including highways, roads, and bridges.

Under current law, one hundred percent of motor vehicle excise tax revenue is distributed to the general fund. For FY14, the committee recommends that \$25 million of the excise tax be distributed to the state road fund for statewide projects and the remainder to the general fund with a sunset provision at the end of FY14. The distribution must not be used for debt financing or debt service.

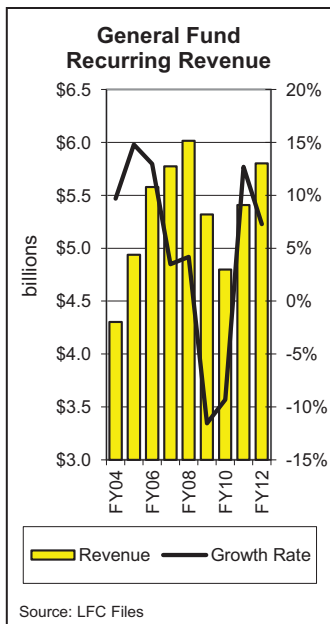
Deficiencies, Specials, Supplemental Appropriations. State agencies requested \$72.4 million from the general fund for special, supplemental, and deficiency appropriations. Requests from all funding sources totaled \$115.1 million. The requests ranged from a general fund request of \$3.9 thousand to cover a deficiency in the Office of Military Base Planning to \$10 million from the Economic Development Department for additional Local Economic Development Act funds. Finally, five requests extend the period of time to spend prior appropriations and federal reimbursements and grants, from the General Services Department, the Commissioner of Public Lands, the Human Services Department, and the Department of Transportation.

The LFC recommends \$85.9 million from the general fund for special, supplemental, and deficiency appropriation requests. The recommendations include \$25 million to the state road fund for statewide maintenance and repair, \$20 million for the Higher Education Department to be used for infrastructure repair, and \$20 million to replenish the higher education endowment fund to be used by universities and colleges to match grants and other awards.

LFC Funding Guidelines for Special and Supplemental Appropriations

- Confirm the agency demonstrated austerity practices and provided documentary evidence that no other funding is available.
- Determine if the request is consistent with LFC priorities for FY12 and FY13.
- Determine if critical or mandated services are in jeopardy.
- Determine if the request can be addressed with existing or additional budget adjustment authority (FY13 or FY14), including program transfer authority.
- Consider performance data and cost-benefit analyses within justifications for supplemental appropriations.
- Consider whether the agency has already been increasing its budget with funds through the budget adjustment process for the same purpose.
- Consider whether funding for the item has been vetoed in the past.
- Do not appropriate non-recurring revenue for recurring expenses.
- Determine if agencies are using a special or supplemental appropriation request to circumvent law or common practice. For example, an agency should not request special funding for an IT project to avoid review by the IT Commission.

Fiscal Outlook & Policy



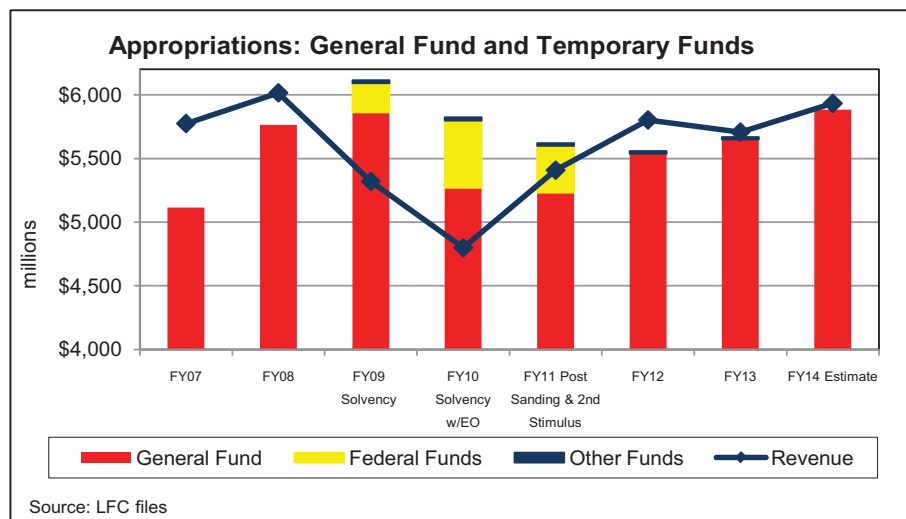
FY14 LFC General Fund Recommendation Compared to Prior Years		
Category	FY13 Adj. OpBud*	FY09 Post-Solvency*
Public Schools	4.4%	-0.9%
Higher Education	4.4%	-8.3%
Medicaid	2.0%	7.3%
Other	3.5%	-12.2%
Total **	3.8%	-3.8%

* Includes temporary federal funds and other state funds.

** Total growth over FY13 would be 4.1%, if exclude other state funds.

After reaching a low in FY10, state revenues rebounded, allowing the state to balance the budget without dipping into reserves. This positive news is tempered by the threat of the domestic economy not recovering as quickly as expected, and the looming threat of the “fiscal cliff,” the automatic cuts scheduled to go into effect if Congress and the president fail to reach an agreement. Internationally, a deeper European Union recession and a harder landing in China due to slow growth remain a serious threat to the world economy. The challenge for New Mexico is to prioritize spending initiatives and to maintain adequate reserves during the anticipated slow recovery over the next few years.

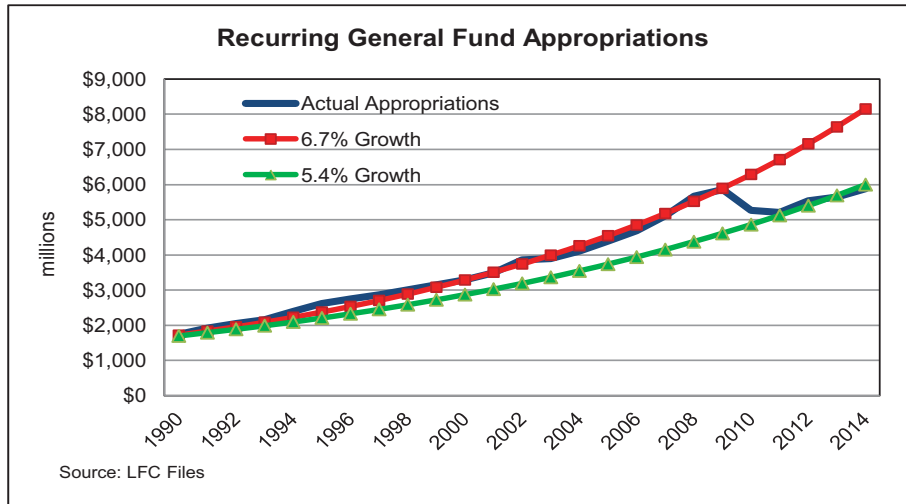
Temporary funding sources played a significant role in maintaining spending levels in FY09, FY10, and FY11 while general fund revenue fell. General fund revenue increased by about 21 percent between FY10 and FY12, thanks in part to statutory tax increases and oil and gas revenues. The FY13 revenues are expected to decline 1.6 percent below FY12 due to a slower economic recovery than anticipated and higher tax expenditures. The FY14 revenues are currently projected to grow 3.9 percent over FY13 revenues, and FY14 revenue is projected to exceed FY13 general fund appropriations by \$283 million, allowing the Legislature to restore needed services cut during the “Great Recession.”



Long-Term Appropriation Trends. In FY13, appropriations increased 2 percent; revenues in FY11 and FY12 actually increased more than expected after the sharp declines in FY09 and FY10. Prior to the impact of recent reductions, total spending growth for the 20 years leading up to the “Great Recession” averaged 6.7 percent per year but the average growth from FY89 through FY14 is 5.4 percent per year. The average growth of personal income in New Mexico since 2001 was 5 percent per year. Thus, recent reductions brought spending closer into line with personal income growth.

The health and human services component of total general fund spending is the fastest growing, with an average annual growth rate since 1989 of almost 8 percent per year, public education averaged about 4.8 percent per year, and higher education averaged about 4.5 percent per year.

Fiscal Outlook & Policy

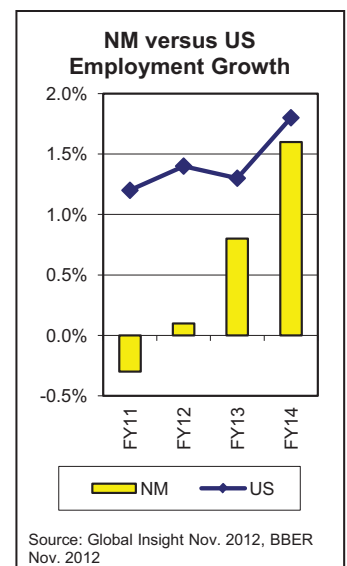
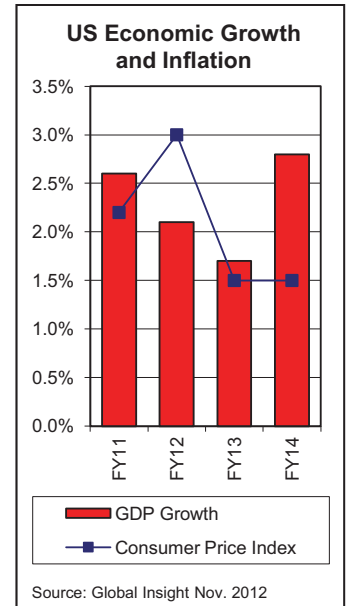


Economic Outlook. The economy turned the corner from recession to recovery during FY10, but the pace of recovery has been slow, and most forecasts continue to predict slow growth in FY13, with higher growth in FY14 and FY15. Employment growth has been particularly slow. The United States is adding jobs but at a very slow rate. Lower labor-force participation has been the primary driver of the drop in unemployment. New Mexico total employment is down by 43 thousand jobs, or 5.3 percent, from its peak level in FY08. Positive but slow job growth began in 2012 but is not expected to exceed 1 percent until FY14. The previous peak number of payroll jobs, about 830 thousand, is not expected to be reached again until 2016.

The consensus revenue estimating group relies on IHS Global Insight (GI) for a forecast of the national economy and on the Bureau of Business and Economic Research (BBER) at the University of New Mexico for a forecast of the New Mexico economy. A summary of the key economic assumptions underlying the consensus revenue forecast is presented in Table 2 in the appendix.

U.S. Economy. The U.S. economy has slowly begun to recover. Consumer spending grew 3.1 percent in the third quarter of 2012, enough to prevent relapse into recession but not enough to support a strong recovery.

Forecasters are uncertain about recovery in 2013 but are more optimistic about 2014 and 2015. The consensus forecast assumes the economy does not entirely go off “the fiscal cliff” and that the president and Congress compromise. The forecast assumes the compromise will include the extension of the “Bush era” tax cuts in 2013, the extension of the 2 percent payroll tax cut and emergency unemployment insurance benefits through 2013 followed by a slow phase-out and finally replacement of the automatic spending cuts with a combination of spending cuts (including entitlements) and tax increases in FY14. Growth in real gross domestic product (GDP) is expected to increase slightly to 1.7 percent in FY13 and then increase further to 2.8 percent in FY14. Inflation in the United States is expected to remain subdued, at 1.5 percent in FY13 and 1.5 percent in FY14. Private wages and salaries, a critical driver of gross receipts taxes, are expected to grow by 3.6 percent in FY13 and 3.7 percent in FY14.



Fiscal Outlook & Policy

New Mexico Employment

Change:

2012 Q2 versus 2010 Q2 & 2011 Q2

(thousands of jobs)

2012 compared with:	2010	2011
Total Non-Agricultural	(1.3)	0.2
Mining	5.2	2.5
Utilities	(0.0)	(0.0)
Construction	(2.6)	(1.9)
Manufacturing	0.8	0.3
Wholesale Trade	(0.5)	0.5
Retail Trade	1.3	0.6
Transportation	1.5	0.7
Information	(1.3)	(0.8)
Finance & Insurance	(0.9)	(0.4)
Real Estate, Rent	(0.2)	(0.0)
Prof. & Tech, Services	(0.7)	(0.5)
Mgt. of Companies	0.1	(0.1)
Admin. & Waste	(1.1)	(1.5)
Educational Services	0.8	0.2
Health Care & Social	4.5	2.1
Arts, Entertain. & Rec.	(0.0)	0.1
Accommodation & Food	1.4	0.7
Other Services	(0.2)	(0.1)
Local Government	(2.4)	(0.6)
State Government	(2.9)	(0.8)
Federal Government	(3.7)	(1.0)

Source: BBER

Change in NM Personal

Income:

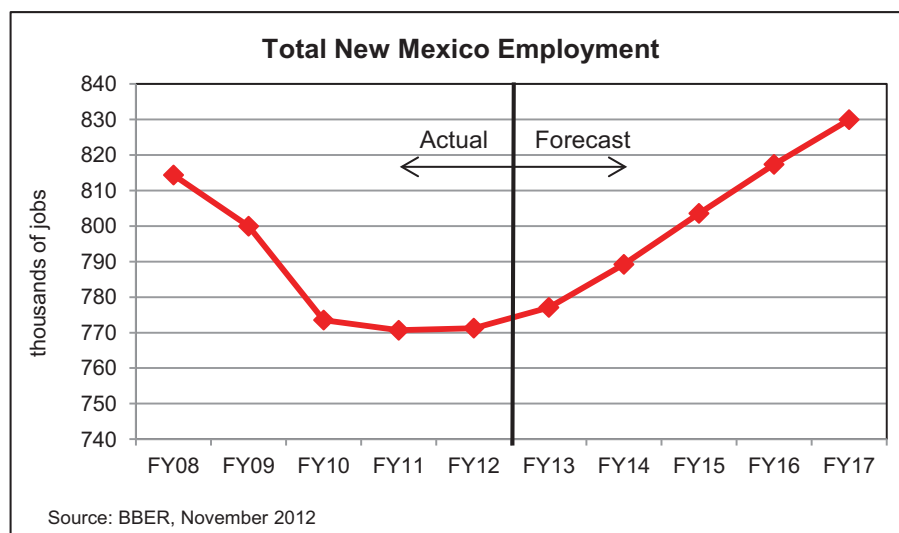
2012 Q2 versus 2011 Q2 & 2010 Q2

(billion dollars per year)

2012 compared with:	2010	2011
Total Personal Income	\$4.7	\$1.4
Total Wages & Salaries	\$1.2	\$0.4
Private W&S	\$1.4	\$0.6
Government W&S	-\$0.2	-\$0.2
Dividends & Interest	\$1.3	\$0.6
Transfer Payments	\$0.7	\$0.3
Business Income	\$0.4	\$0.2
Other	\$0.3	\$0.1

Source: BBER

New Mexico Economy. New Mexico nonagricultural employment is expected to grow only 0.8 percent in FY13 and 1.1 percent in FY14. The continued slow recovery means some sectors are expected to stay well below their peak employment even after several years. These include construction, manufacturing, retail trade, and government. Meanwhile, the healthcare sector is expected to continue to grow, accounting for more than one-third of job growth over the next three years.



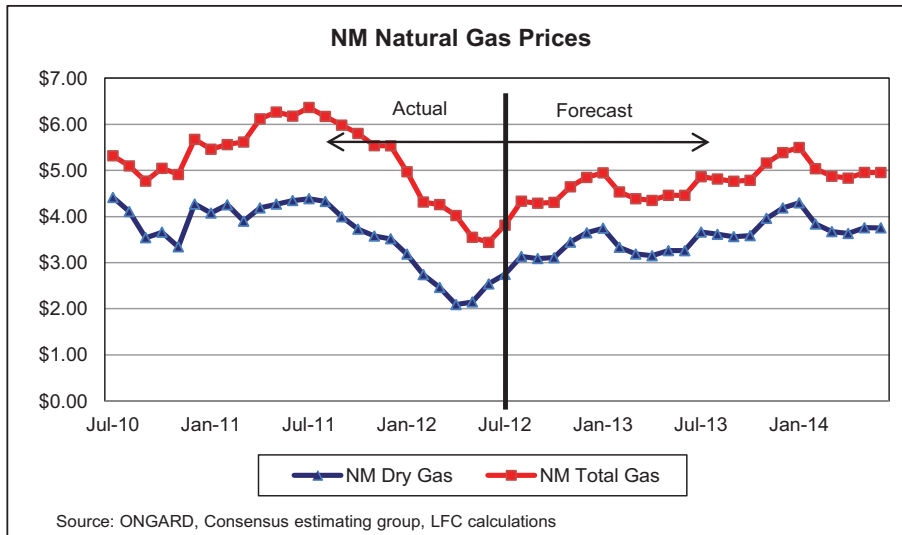
Energy Markets. Oil prices rose sharply in early 2012 in response to fiscal reform in Greece and Italy and GDP improvements. Further price increases resulted from news that the Seaway pipeline was reversed in January 2012, thereby transporting a glut of oil marooned in Cushing, Oklahoma, to oil refineries on the Gulf Coast. The increased demand initially resulted in higher prices that stabilized at a lower rate in the latter half of the year. Tensions in the Middle East pose an upside risk to the price forecast. However, continued economic uncertainty in the United States and Europe threaten ongoing price growth.

Oil prices are expected to remain around \$85 per barrel (bbl) for the mid-term, consistent with slow economic recovery. Oil volumes increased by 10 percent in FY11, and 16 percent in FY12. The forecast for New Mexico assumes a modest but positive growth of about 5 percent in FY13 and FY14. Activity in the Permian basin suggests continued growth in oil volumes in the forecast years with decreasing production associated with well decline expected in later years. Industry analysts suggest that pipeline and trucking capacity constraints in the Permian basin might decrease prices. In fact, the New Mexico price differential to West Texas Intermediate appears to have increased to \$5.32/bbl in FY12 from \$4.65/bbl in FY11. Each additional \$1/bbl change in price sustained over one year is equivalent to a \$4.5 million change in general fund revenue.

Natural gas prices remain low, largely in response to supply increases resulting from technological improvements in production and ongoing strength in shale-based liquids. With predictions for another mild

Fiscal Outlook & Policy

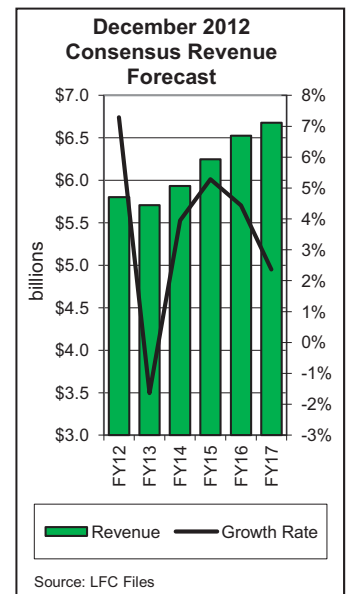
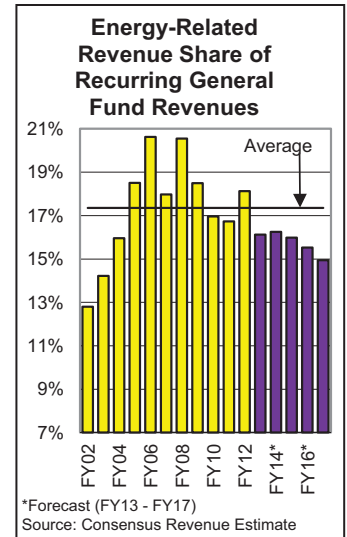
winter, analysts expect lower demand to further inhibit any growth in volumes. Natural gas volumes fell by 2.9 percent in FY11 and 0.8 percent in FY12. Volumes are expected to continue to decline as production moves to richer areas, such as in Texas and Pennsylvania. Although natural gas volumes are falling, higher prices and volumes for natural gas liquids help to offset part of the decline in total production. The liquids premium is expected to average \$1.20 per thousand cubic feet (mcf) in FY13 and FY14. Each 10 cent change in natural gas price is equivalent to an \$8.5 million change in general fund revenue.



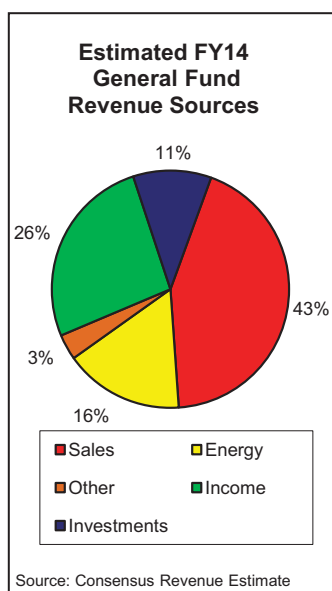
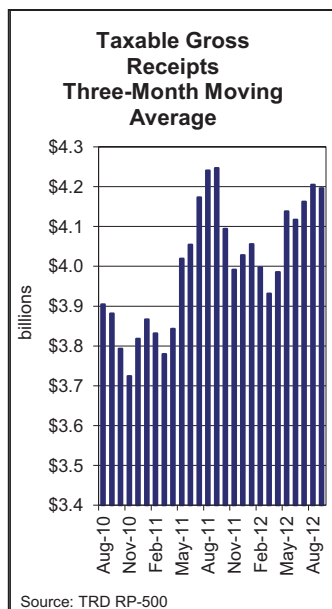
Revenue Forecast. Recurring revenue growth in FY12 was 7.3 percent. About one-fourth of this growth can be attributed to higher-than-expected energy prices and the resulting increased activity in the energy sector. Recurring revenue is forecast to decline 1.6 percent in FY13 and grow by 3.9 percent in FY14.

Table 3 presents the December 2012 consensus forecast of general fund revenue. Rising oil prices and volumes were a major factor in the FY12 increase, positively impacting gross receipts tax (GRT), corporate income tax (CIT), personal income tax (PIT), severance tax, and federal mineral leasing revenue. The FY12 increase also reflects modest growth in sales taxes and interest earnings. Slow growth is expected in FY13 with weakness in severance taxes and rents and royalties due to lower energy prices. Some of the weakness in GRT, PIT and CIT is due to the assumption the state will be spending more on tax credits, such as the manufacturing/construction tax deduction, high-wage jobs tax credit, and film credit. As with the nation, recovery in New Mexico is expected in FY14 and FY15.

Gross Receipts Tax. The FY12 GRT revenues matched their peak levels from FY08. Tax collections increased 5.8 percent in FY12 to \$1.9 billion. The mining and oil and gas extraction industries experienced the largest increases in the GRT while the construction sector continued to decline. Analysts reached consensus on growth rates of 4.1 percent for FY13 and 3.9 percent for FY14, before tax credit adjustments. Slow but positive growth is expected in FY13 and FY14 due to the continued slow pace of job growth and spending and



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tax credit adjustments. Tax credits being adjusted include the high-wage jobs tax credit and the manufacturing/construction tax deduction.

Personal Income Tax. Net collections of personal income tax (PIT) increased 8.4 percent in FY12 to \$1.2 billion. Strength in oil and gas withholding and capital gains is contributing to the growth. The high PIT growth rate in FY12 is also due to \$36 million in fiduciary tax booked as nonrecurring in FY11. Collections are expected to increase by only 1.4 percent in FY13 and 4.3 percent in FY14 due to slower wage and income growth forecasts. The lower growth rate in FY13 is due to about \$26 million in oil and gas withholding tax revenue in FY12 that is not anticipated in FY13.

Corporate Income Tax. Corporate income tax (CIT) receipts increased 22.3 percent in FY12 to \$281 million. For FY13, CIT revenues are estimated to be flat, reflecting weakness in federal corporate income tax projections and weakness in current fiscal-year receipts. FY14 gross revenue growth is projected to be 22 percent, in part reflecting recovery in the national economy. The net growth rates reflect the effect of the film production tax credit fluctuating from \$46 million in FY08 to \$95 million in FY11 then declining to \$10 million in FY12. Analysts assume the maximum credit allowable, \$50 million, will be claimed in FY13 and FY14.

Energy Revenues. High oil prices and volumes outweighed weakness in natural gas prices in FY12. Growth in oil production surged to 15.8 percent in FY12 from 10 percent in FY11. Further, oil production increases are concentrated on federal lands with FY12 production on federal land reaching almost 50 percent of the total compared with 43 percent five years ago. Revenue estimators expect continued growth in oil production in the near future.

The FY12 severance tax revenue increased 7.7 percent to \$456 million and is expected to decline 8.1 percent in FY13, as oil prices and natural gas prices and production continue to decline. Rents and royalties grew 24.7 percent in FY12 to \$595 million but are expected to decline 15.9 percent in FY13.

Investment Income. The state's permanent funds have been gradually recovering from the sharp drop in market value during the 2008 financial crisis, though the combined value of the funds is still 9 percent below its peak. Distributions to the general fund began to recover in FY11 and grew by 2.2 percent in FY12 but are predicted to drop 4.8 percent in FY13. Distributions are based on a rolling average of the last five calendar years' market value for the respective funds, and distributions for FY13 and FY14 are based in part on low market values in fiscal years 2010 and 2011. Beginning in FY13, the distribution rate from the land grant permanent fund mandated by voters in the 2004 constitutional amendment will drop from 5.8 percent to 5.5 percent.

Other Revenues. The FY14 insurance premium tax estimate contains the first fiscal impacts from the Affordable Care Act (ACA). Premium taxes are paid quarterly and the impacts will only be reflected in the last quarterly payment for FY14; much larger impacts are anticipated for subsequent fiscal years. Analysts have been careful to include the impacts of existing law only. No Medicaid expansion is assumed.

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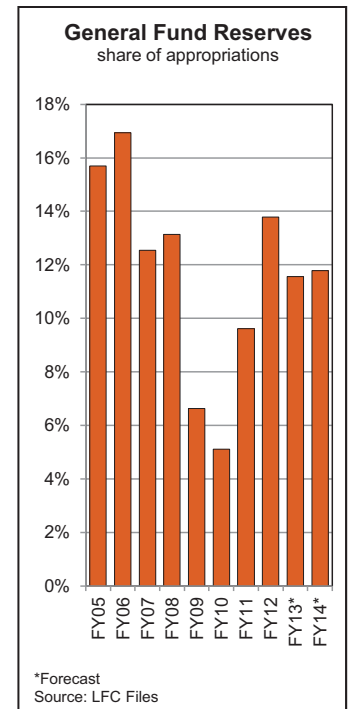
Risks to the Forecast. While the economic recovery lost momentum, the recovery continues but remains vulnerable to weakness in consumer sentiment, personal income, the housing market, currency volatility, financial sector weakness and federal fiscal imbalance. Although consumer spending increased slightly, particularly on Black Friday, high debt loads, low house prices, modest employment growth and a lack of confidence will likely limit the momentum that consumers are able to create for the near future.

New Mexico relies heavily on federal government spending through the national laboratories, military institutions, and transfer payments (including Medicaid and schools). Any reductions in federal funding could have a negative impact on the New Mexico economy. The state budget includes about \$6 billion in federal funding or half of state funding. Additional general funds may be needed to replace reduced federal funds. With a federal share match in the range of 90 percent to 100 percent, Medicaid expansion, if approved, will boost state economic activity and revenue.

Energy markets are inherently volatile. Natural gas prices continue to decline slightly each month and remain vulnerable to increased supplies from productivity improvements that make it possible to recover previously inaccessible natural gas. Oil prices have declined from their high in early 2012 but continue to remain vulnerable to economic uncertainty. Oil production is strong due to horizontal drilling and expanded exploration. Environmental regulation on issues such as horizontal drilling and endangered species create uncertainty in future oil and natural gas production.

In July, the committee heard testimony about federal efforts to create a framework for regulating Internet sales taxing authority. The Digital Goods and Services Tax Fairness Act (H.R. 1860 and S. 971, 112th Congress, 2nd Session) lays out a comprehensive framework for taxing goods and services provided over the Internet but with significant limitations on states taxing such goods and services. The Marketplace Equity Act and the Marketplace Fairness Act (H.R. 3179 & S. 1832, 112th Congress, 2nd Session) would grant states authority to impose taxes on remote Internet retailers that compete with local retailers but currently do not have to collect and remit sales or gross receipts taxes to a purchaser's home state. The imposition of New Mexico tax on remote sellers represents an upside risk to the forecast.

General Fund Reserves. Projected general fund reserves (Table 4 in the appendix) are \$653 million, or 11.6 percent of recurring appropriations at the end of FY13 assuming \$108 million of deficiency, supplemental, specials, and information technology appropriations and \$42 million in capital outlay. The LFC appropriation recommendation for FY14 fits within the revenue estimate and leaves reserves at \$693 million, or 11.8 percent of recurring appropriations at the end of FY14. New Mexico reserves include about \$150 million from the tobacco settlement permanent fund. The Legislature may authorize spending from the fund for a budget shortfall only after balances in all other reserve accounts have been exhausted. Higher revenues from oil and



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natural gas in the last couple of years have contributed to higher reserve levels. Volatility of oil and natural gas revenues commands a higher reserve margin than other states. Finally, for years, the state has not reconciled the Department of Finance and Administration's financial summary with cash and other assets held by the State Treasurer. There are indications that it may be necessary to reserve significant amounts to cover a long-term overstatement of the state's financial condition. Exceeding a 5 percent reserve balance is a major accomplishment in light of the slow but positive rate of economic recovery in the state. National rating agencies, such as Moody's and Standard & Poor's, traditionally have considered balances of 5 percent or above as sufficient.

During the economic downturn, the Legislature continued to prioritize public education funding. Yet this investment has only partially paid off, a sign policymakers must persist in their demand for results and accountability.

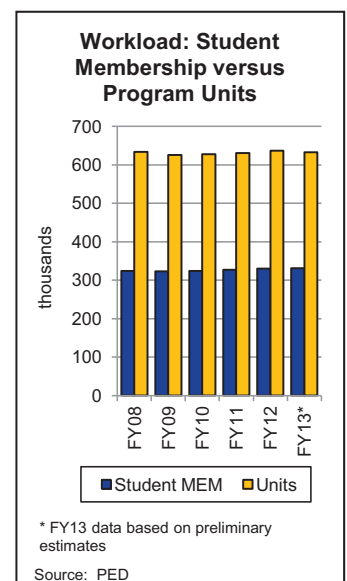
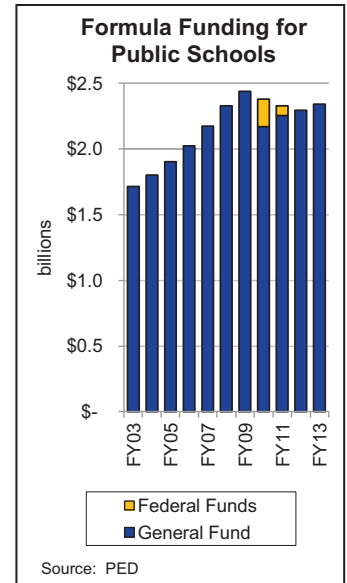
Since FY04, general fund appropriations for formula funding for public schools increased \$629 million, or almost 37 percent. Over the same time period, categorical, “below-the-line” funding decreased \$4 million, or 3 percent, demonstrating the Legislature’s commitment to preserving formula funding. Related recurring funding increased from \$7.5 million in FY04 to \$41.8 million in FY13, or 455 percent. During the same time period, student enrollment increased 3.7 percent, while total units increased approximately 4.8 percent.

Despite targeted efforts, student achievement results continue to range from mixed to disappointing. Graduation rates for FY12 decreased, but the percentage of students requiring remediation in college in FY11 also modestly decreased. Statewide student proficiency rates in FY12 increased slightly in reading and math from FY11 proficiency rates, but the achievement gap continues to persist for all subgroups. The evidence suggests investments in education must be strategic and research-based.

Early childhood care and education remains a major focus of the state and federal government, with a focus on early literacy. High-quality early learning experiences are proven to prepare children for success in school and later in life. Research demonstrates a high return on investment for money spent on early childhood care and education for at-risk children. Other major reforms include revising current teacher and school leader evaluations to measure effectiveness, creating meaningful school accountability designations that are easier to understand than federal accountability designations, implementing new content standards, and ensuring all elementary students are able to read proficiently. All are intended to increase transparency and accountability while also improving student achievement.

School Reform. As Congress continues to consider reauthorizing the Elementary and Secondary Education Act (ESEA), the U.S. Department of Education awarded Race to the Top funding and waivers from provisions of the No Child Left Behind Act (NCLB) to states that assure implementation of certain education reforms. Nationally, some states are changing laws to conform to federal education policy established by the U.S. Department of Education, making these states more competitive for non-entitlement federal funding. Federal and state reform initiatives include the following: linking student test scores to teacher evaluation, licensure, tenure and compensation decisions; expansion of quality charter schools; development of longitudinal data systems; aggressive intervention for schools with low test scores; creation of state accountability systems; and implementation of common content standards.

No Child Left Behind Act Waiver. NCLB focused states and schools on the gap between the achievement levels of different student groups



Public Schools

Common Core Content Standards

The CCSS are new, evidence-based educational standards that define the knowledge and skills students should have from kindergarten through 12th grade to graduate high school able to succeed in entry-level, credit-bearing academic college courses and in workforce training programs. The standards

- Are aligned with college and work expectations;
- Are clear, understandable and consistent;
- Include rigorous content and application of knowledge through high-order skills;
- Build on strengths and lessons of current state standards; and
- Are informed by other top performing countries, so that all students are prepared to succeed in our global economy and society.

New Mexico was granted a waiver from calculating adequate yearly progress (AYP) and identifying schools for improvement based on AYP designations. New Mexico will be allowed to identify schools for improvement and reward schools based on the state's A through F school grading system and align certain federal funding with the A through F rating system.

The federal government required the state to establish new school growth targets that monitor subgroup performance and determine interventions (but are not a part of a school's grade) – establishing schools designated as “reward,” “priority,” “focus,” and “strategic.” These designations will be used by the state to identify and support struggling schools

and increased accountability for groups of high-need students. However, it also encouraged some states to set low academic standards, failed to recognize or reward growth in student learning, and did little to elevate the teaching profession or recognize the most effective teachers. The federal government has offered states flexibility from certain provisions of NCLB to support state and local innovations aimed at increasing the quality of instruction and improving student achievement. In exchange, states must adopt rigorous college- and career-ready standards, strong state accountability systems that meaningfully differentiate between school achievement and progress, and teacher and school leader evaluation systems that prioritize student achievement.

Common Core State Standards. New Mexico adopted the common core state standards (CCSS) in October 2010. The Public Education Department (PED), in collaboration with stakeholders statewide, developed a plan that calls for transition to the CCSS by the 2014-2015 school year, including implementation of the new Partnership for Assessment of Readiness for College and Career (PARCC) assessment in grades three through 11. The CCSS are being taught in kindergarten through third grade during the current school year and will be taught in all grades in the 2013-2014 school year. During these two transition years, portions of the New Mexico Standards-Based Assessment (NMSBA) that most closely align to the CCSS and New Mexico's current content standards will be administered to students (referred to as bridge assessment). Professional development opportunities are being offered to educators statewide.

Accountability, Adequate Yearly Progress, and School Grades. In previous years, adequate yearly progress (AYP) was the primary measure under the ESEA to determine whether schools were making progress toward gradually increasing goals of student participation and academic proficiency. This year marks the first year the state is exempt from calculating AYP for federal accountability purposes. In its place, the federal government approved the use of the school grading system the Legislature passed during the 2011 session.

The 2011-2012 school year marks the first year official school grades were issued. The new state accountability system gives schools a letter grade between A and F based largely on student performance on the NMSBA, with small values awarded for student surveys, attendance, student and parent engagement, and other factors. For the 2011-2012 school year, 40 school received As, 203 received Bs, 275 received Cs, 249 received Ds, and 64 received Fs. Compared with preliminary school grades issued during the 2011-2012 school year, approximately 33 percent of final school grades decreased. Conversely, the department estimated that, had AYP been calculated, 811 schools, or 98 percent would have been labeled as failing.

The school grading system serves as the basis for prioritizing certain federal funding and state funding and is integrated into new regulations overhauling teacher and school leader evaluations. The PED intended the system to be easier to understand than federal AYP designations to

allow stakeholders and policymakers to better understand school performance and make decisions accordingly. However, much confusion still remains for schools and policymakers. The formula uses a statistical value-added model (VAM) that is highly technical and not readily understandable to the layperson. Additionally, the PED has not made comprehensive technical data related to calculation of school grades available for analysis, making it difficult for schools to recreate grade calculations or to make instructional policy decisions. The PED deemed a comprehensive public records request from superintendents for the technical formula and supporting documentation and data “excessively burdensome.” The Legislature should consider requiring the PED ensure the calculation of school grades is transparent to stakeholders and policymakers to ensure improved instructional decisions.

Teacher and School Leader Quality and Effectiveness. Research clearly demonstrates the importance of teachers and school leaders in student learning. Statewide, schools continue to employ a high percentage of teachers meeting the federal “highly qualified” definition who are meeting competencies on annual evaluations. However, these teachers are not necessarily effective teachers, as evidenced by the slow positive progress in student achievement. The current system of evaluating teachers and school leaders does not recognize the achievement of outstanding and effective teachers and school leaders, nor does it effectively identify those who are struggling in order to provide the appropriate support to improve their performance.

Since 2010, at least 22 states addressed educator effectiveness by mandating annual evaluations based in part on student learning and linking evaluation results to key personnel decisions, including tenure, reductions in force, dismissal, and retention. In most cases, states have implemented new evaluation systems by legislation; however, a few states have done so by rule only. The 22 states vary on how much student learning is weighted in their evaluation systems.

After failing to secure bipartisan support in 2012 for a bill that based 50 percent of a teacher’s annual evaluation on student growth (as measured by the NMSBA and other district-approved assessments), the PED implemented the evaluation system by rule. The new system attempts to differentiate between levels of effectiveness through the use of multiple, valid measures. The PED indicated the percentage of the evaluation based on student learning is not evidence-based but is based on common practice and initiatives around the country. Teachers employed by charter schools are generally exempt.

The PED indicates a value-added model (VAM) will be implemented to calculate growth. VAMs attempt to remove the effects of factors not under the control of a teacher or school, such as prior performance and socioeconomic status, thereby providing a more accurate indicator of effectiveness than is possible when these factors are not controlled. Application of these models to teacher and school leader evaluations is relatively new and best used when based on three years of data. VAMs can be very volatile. Conclusions about a teacher’s

School Grade Calculations

Elementary and Middle Schools

- Student Proficiency (40%)
- Student Growth (40%)
- School Growth (10%)
- Attendance and Opportunity to Learn (10%)
- Student and Parent Engagement (5% bonus)

High Schools

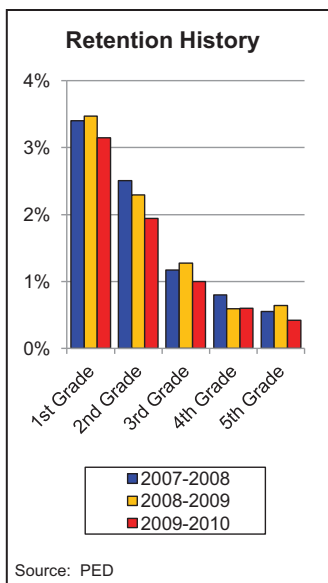
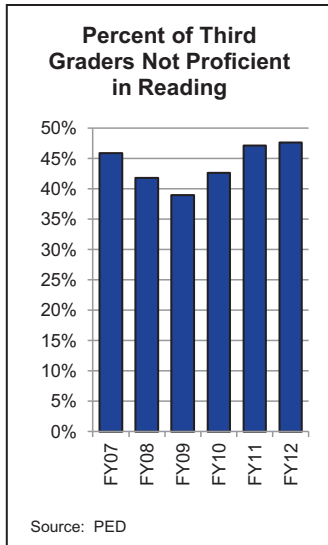
- Student Proficiency (30%)
- School Growth (30%)
- Graduation Rate and Growth in Graduation Rate (17%)
- College- and Career-Readiness (15%)
- Attendance and Opportunity to Learn (8%)
- Student and Parent Engagement (5% bonus)

The PED is piloting the new evaluation system in most schools receiving federal school improvement grant funding and in several other volunteer districts and charter schools.

- Delaware, Florida, Indiana, and Rhode Island do not permit a teacher to be rated highly effective or effective unless they achieve a set threshold on learning gains.
- Colorado, Connecticut, Idaho, Louisiana, Maryland, Michigan, New Mexico, Nevada, Ohio, Oklahoma and Tennessee require data on student learning to constitute at least 50 percent of annual evaluations.
- Arizona, Illinois, Minnesota and New York require student data on student learning to constitute less than 50 percent of annual evaluations.
- Washington and New Jersey do not prescribe a set percentage.

Source: Bellwether Education Partners

Public Schools



effectiveness can be vastly different depending on the model developed, and models can give false results with incomplete data sets. While use of a VAM is based on standardized tests, many teachers teach subjects for which students are not subject to standardized testing (i.e. welding, music, physical education, civics). The regulation allows the use of the school's A through F grade in the evaluation of teachers in non-tested subjects and grades until standardized assessments are developed. Development of standardized tests for non-tested subjects is likely to be extremely costly.

In addition to establishing a comprehensive evaluation system, policymakers should continue to address other quality levers, including teacher preparation programs, effective recruitment and retention strategies, and compensation to achieve the highest quality teacher workforce.

Early Childhood Learning and Literacy. Mastery of reading by third-grade is a critical milestone in a student's academic career. Students shift from learning to read to reading to learn in the third grade. Early reading proficiency is well-established as a strong predictor of high school graduation rates and future earning potential. Research shows that students who fail to achieve this critical milestone often struggle in later grades and are at greater risk of dropping out before graduating. Identifying struggling readers before the third grade is critical to their academic success.

A recent LFC staff evaluation of early literacy in New Mexico notes the percent of third graders reading proficiently, or at grade level, dropped from 61 percent in 2009 to 52 percent in 2012. However, these declines mask improvements in average scores because of changes in the cut score used to determine proficiency. Average third-grade scores have steadily increased from 27.9 in 2007 to 39.5 in 2011. During that time, New Mexico has invested heavily in early childhood education programs to improve early literacy, including full-day kindergarten, prekindergarten, and the extended school year program Kindergarten-Three-Plus (K-3 Plus), reading coaches, and other school-based interventions, though funding for these programs only cover a small percentage of eligible students statewide. Despite these targeted investments, third-grade reading proficiency rates continue to lag behind the desired levels and decreased 0.5 percentage points from 2011 to 2012. Despite the importance of mastering reading by the third grade, many third graders who are unable to read on grade level are promoted to fourth grade every year.

One of the governor's top education priorities is ending the practice of promoting third-grade students who do not read on grade level to the fourth grade. Early literacy initiatives, such as mandatory retention policies, have produced mixed results nationally. While research clearly notes the long-lasting negative effects of promoting unprepared third graders to fourth grade, research also shows that holding students back to repeat a grade has negative effects, including an increased likelihood of behavioral problems, lower academic achievement, dropping out, and substance abuse issues. High-quality early

education improves student performance, but oftentimes the lack of a coordinated strategy and resources and inconsistent program implementation and quality limits success. Improvement in early literacy is dependent on effective identification of struggling students and access to targeted, coordinated intervention strategies.

The LFC evaluation noted student performance is highly influenced by economic status, language status, and student attendance. Students who are Hispanic, Native American, English-language learners (ELL), or qualify for free or reduced-price lunch (FRL) generally have lower proficiency rates than the overall state average. Investments in PreK and K-3 Plus have resulted in measurable effects on third-grade reading proficiency. Both programs generally serve more challenging student populations and are improving reading skills for those participating.

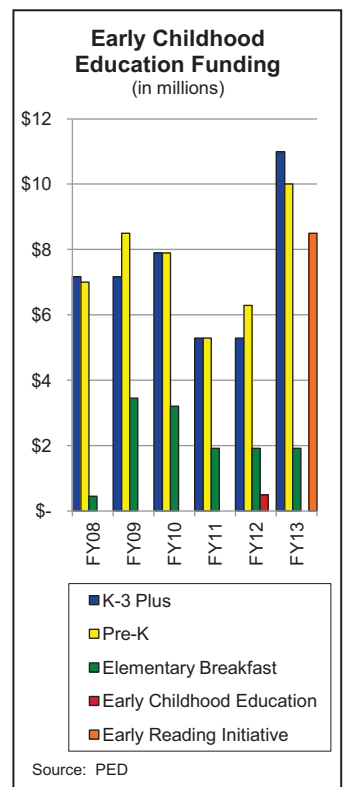
Kindergarten-Three-Plus. K-3 Plus received \$11 million for FY13, or an increase of 108 percent. The program extends the school year by a minimum of 25 instructional days before the school year begins for participating kindergarten through third-grade students in high-poverty schools. Increased time in kindergarten and the early grades narrows the achievement gap between disadvantaged students and other students, increases cognitive skills, and leads to higher test scores for all participants. K-3 Plus is a cost-effective way to improve student outcomes and close the achievement gap, costing approximately \$1,100 per student for an additional five weeks of school. Roughly 28 percent of eligible students are funded to participate in K-3 Plus. Statewide, more than 33 thousand students attend eligible elementary schools. Recognizing the return on investment, the Legislature made the pilot program permanent during the 2012 session.

Prekindergarten. Prekindergarten administered by the PED received \$10 million for FY13. Priority is given to applicants serving a large number of at-risk students (Title I schools with at least 40 percent of students eligible for free or reduced-fee lunch). During the 2012-2013 school year, more than 5,331 4- and 5-year-olds were enrolled in PED- and CYFD-supported prekindergarten. The departments reimbursed participating schools and providers at approximately \$2,900 per student. Statewide, the prekindergarten program serves approximately 24 percent of eligible 4- and 5-year-old students. However, a large percentage of the eligible children not being served by prekindergarten are being served by other programs, such as Head Start and state-funded childcare.

Economic Benefits of Early Childhood Programs. Economic benefits of high-quality early childhood interventions tend to be greater for programs that effectively target at-risk children than programs that serve all children. Research shows investments in early childhood programs have the potential to generate savings that more than repay the costs and have returns to society through increased taxes paid by more productive adults and significant reductions in public expenditures for special education, grade retention, welfare assistance, and incarceration. Services and support of young students continues to

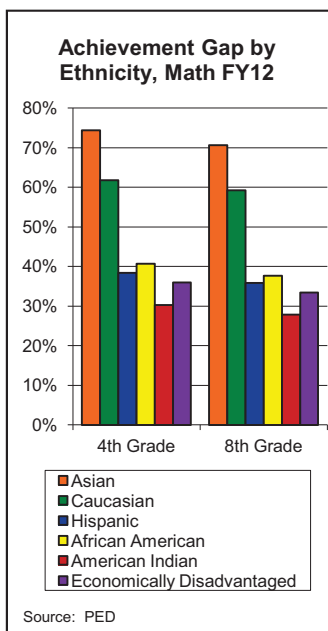
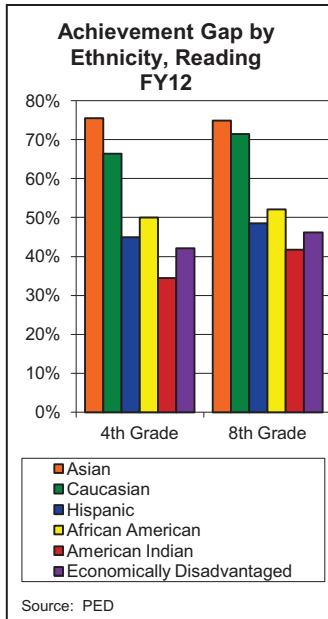
Research shows a leading predictor that a student will drop out of college is the need for remedial reading.

Preliminary results from the first year of a study conducted by Utah State University indicate Kindergarten-Three Plus has a significant positive effect on student achievement.



Approximately 85 percent of New Mexico elementary schools are Title I schools.

Public Schools



be a focus of the Legislature. Resources must be effectively targeted to programs meeting the state's goals for improving student outcomes. As increased revenues become available, funding should target communities that have poor or negative student outcomes or a concentration of risk factors, such as child poverty. Additionally, programs should be routinely monitored and results reported to ensure evidence-based investments.

Student Achievement. For FY12, approximately 50 percent of fourth graders and 46 percent of eighth graders continued to score below proficiency in reading, and 65 percent of fourth graders and 58 percent of eighth graders continued to score below proficiency in math. While overall proficiency incrementally improved during the 2011-2012 school year, proficiency rates for certain grades and subjects are below FY11 rates. For example, third graders reading at or above proficiency decreased 0.5 percentage points from FY11. The achievement gap continues to persist for most subgroups and is largest for Native American students. The second largest gap exists for Hispanic students and economically disadvantaged students.

Graduation Rates and College or Career Readiness. The PED notes a decrease from 67.3 percent to 63 percent in FY11's four-year graduation rate. Fiscal year 2013 marks the first year graduating high school students must show a standard composite score in both math and reading on the NMSBA, or meet the requirements of an alternate demonstration of competency, in order to graduate. During the 2011-2012 school year, 11th-grade students were given the NMSBA to fulfill this requirement. Forty-three percent of those tested did not receive the required score to graduate. These students will be given several opportunities to demonstrate competency by retaking all or portions of the NMSBA, demonstrating competency on the PSAT, SAT, PLAN, ACT, AP or Accuplacer tests, or exhibiting competency on their end-of-course examinations. Graduation rates for FY13 could be negatively impacted if students are not able to achieve the required composite score or are unable to demonstrate competency through alternative means.

The PED and the Higher Education Department report a decrease in the percentage of New Mexico high school students graduating in 2010 and enrolling in New Mexico institutions of higher education the following fall who required remedial courses: 47.1 percent in FY10 compared with 46.2 percent in FY11. Previous analysis by the Office of Education Accountability indicates students who require remedial courses in college are less likely to complete a degree or certificate program. Additionally, an increased number of remedial courses is associated with a decreased likelihood of completing a degree or certificate program. New Mexico's remediation rate signals the need to align high school and college curricula, better prepare students for college, and improve communication between public schools and institutes of higher education.

Targeted Investments. Public Schools must make strategic decisions that focus on effective programs with demonstrated results. Educators

must target resources to those practices that have the greatest impact on student achievement and graduation rates. Time allocated for instruction must be appropriate, effective, meaningful, and motivating for students. Data-driven decisions using multiple data points gathered throughout the year, including short-cycle assessments and classroom tests, must be made, assuring informed instructional decisions. Additionally, to ensure student success, focus should be on high-quality implementation of evidence-based programs.

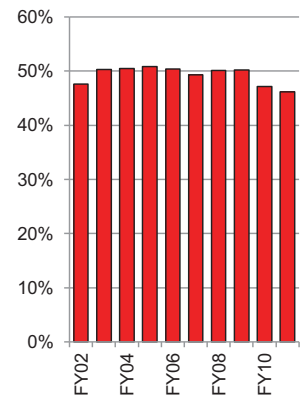
Funding Formula. For FY13, New Mexico will allocate almost \$2.3 billion through its public school funding formula to 89 school districts and 95 charter schools to serve approximately 332 thousand students. On initial implementation, New Mexico's funding formula was nationally recognized as a success in providing equitable public education funding. More than 40 years later, the funding formula still provides comparatively equal access to funding, but it has been amended more than 90 times to reflect changes in public school policy and finance. Recent budget challenges, analysis and studies by various groups highlighted acute formula problems. Three recent independent studies made a series of recommendations to either implement a new formula or adjust the existing formula.

The New Mexico Coalition of School Administrators (NMCSA) formed a workgroup of stakeholders, including charter schools, legislative agencies, and the business community to review previous recommendations. The group is focusing on common themes from the three studies' recommendations, including increasing formula funding for at-risk students (those from low-income families and English-language learners), reforming size adjustments, and aligning the training and experience (T&E) index to the three-tiered licensure system. The group is also considering funding levels and the impact of the growth of charter schools and the potential phasing in of changes over a two- to three-year period. The workgroup is expected to offer recommendations prior to the 2013 legislative session.

The Legislature should consider maintaining the existing formula, but updating key components to promote better equity while still recognizing disparity in size; simplifying the formula and minimizing administrative burden; and aligning the formula to modern education policy. The Legislature may also wish to implement performance-based budgeting for all public schools to increase transparency of public education spending and school performance.

At-Risk Funding. The current formula places little weight, as compared with other components and other states' formulas, on the additional incremental costs associated with educating at-risk students. For example, Deming, Gadsden, and Hatch generate some of the lowest per-student funding from the state's funding formula but serve some of New Mexico's most disadvantaged students. Studies estimating the additional cost necessary to serve at-risk students vary and range up to 48 percent. Previous LFC evaluations have identified the state's largest achievement gap is highly influenced by poverty and language status, regardless of ethnicity or race. Typically, additional

Percent of NM Graduates Taking Remedial Classes in College



Source: OEA

Previous studies found the state's public school funding formula, as a distribution model, is too complicated and administratively burdensome, does not allocate resources toward the greatest student needs, creates incentives that run contrary to, or do not effectively support, recent education policy and research, and, in some cases, allows public schools to make decisions to maximize their revenue at the expense of others. These practices, though within the rules, raise serious concern over basic fairness in the distribution of taxpayer dollars to educate New Mexico's children.

The state spends more money to subsidize inefficiently sized districts and charter schools than on at-risk students.

Public Schools

SIZE ADJUSTMENTS

Estancia's Lower Elementary (prekindergarten through first) Van Stone Elementary (second), and Upper Elementary (third through sixth) serve more than 400 elementary students in three discrete buildings on the same campus for the purpose of generating small-school funding.

Lovington's Freshman Academy serving only ninth grade students is on the high school campus and is considered a separate school from Lovington High School, despite shared administration and facilities.

CHARTER SCHOOLS

In FY12, charter schools generated on average \$8,344 per student, or 21 percent more funding per student than the district average of \$6,869.

In FY12, charter schools generated 35 percent of total small-school units, though they only serve approximately 5 percent of the student population. Small-school adjustment units comprised 19 percent of total units generated by charter schools, while size adjustment units comprised only 2 percent of units generated by school districts.

T&E INDEX

State statute specifies instructional staff to be included in the T&E index calculation; however, the PED routinely includes other staff in the calculation, even those funded through other formula components (ancillary staff).

costs are associated with the need for extended learning time and intervention services, among others.

Size Adjustments. Size adjustments do not effectively target subsidies for scale inefficiencies and promote inappropriate school structures. In some instances, districts create or classify schools as small on paper, such as claiming two schools in one building or on the same campus, to claim size adjustments. In addition, current size adjustments are an ineffective subsidy for small districts – school districts with fewer than 200 students continually seek emergency supplemental funding to cover operational costs. The work group is considering recommending replacing size adjustments with a new district size adjustment for school districts, increasing the weight, and implementing a new rural-micro district size adjustment to address the continued need for emergency supplemental funding for a number of small districts. The group is also evaluating a new charter school size adjustment that balances the need to recognize the diseconomies of scale with current overfunding.

Charter Schools. The funding formula and many of its major changes were made before the growth in charter schools. Charter schools generate units like a school district in almost every factor, but the result is higher per-student funding levels than the district average. Some charter school funding rivals that of rural isolated school districts despite urban locations, in large part because of the generation of small-school funding originally intended for small, isolated schools. These issues are further exacerbated by the fact that the Public Education Commission and school districts authorize charter schools outside the regular budget process, committing the state to increased funding burdens without fiscal impact analysis. The workgroup is balancing the desire to maintain the role of charters in the system, but at a more affordable cost. The Legislature should consider eliminating small-size funding for newly authorized charter schools for FY14.

Training and Experience Index. The training and experience (T&E) index can have the effect of “locking-in” disparities in students’ access to potentially higher quality teachers. Since the inception of the index, concerns have focused on the effect of giving public schools with more educated and experienced teachers additional funding while many high-poverty schools struggle to attract these types of teachers. Additionally, the T&E index amplifies disparities and duplicates funding. It acts as a multiplier on units that not all districts can claim (bilingual, physical education, fine arts, etc.) or that may vary widely unrelated to teacher experience (special education). It also double counts the costs of certain employees (ancillary staff). The T&E index also is not aligned to the current three-tiered salary minimums and public schools raise concerns it does not adequately adjust for educators’ movement up the career ladder.

During 2012, the national debate on the short-term and long-term value of a postsecondary credential reached a high pitch due to steadily climbing increases in tuition and fees and a heavier burden on students and families for these costs. But research continues to show that the benefits of earning most certificates and degrees outweigh individual and societal costs. Georgetown University's Center on Education and the Workforce's *College Advantage: Weathering the Economic Storm* shows individuals with high school diplomas or less suffered the greatest during the recession and are having the hardest time pulling through. Individuals with high-skill certificates and bachelor's degrees experience lower unemployment, higher household incomes, stable quality of life, and lower use of social welfare programs.

Despite significant federal resources supporting postsecondary institutions and students – from Pell grants and other student aid, tax deductions, and incentives – states reduced support for higher education to address growing healthcare, public education, and public pension insolvency. As this shift occurred, students and families paid an increasing share of educational costs, consuming a greater percentage of household income, whether in semester payments or student indebtedness. In the Pew Research Center's *Social Demographic Trends 2012 Report*, nearly one in five households in 2010 has educational debt, up from one in 10 households in 1989. Further, in 2010, households of less than \$60 thousand in annual income allocated up to 12 percent to 24 percent of household income to educational debt.

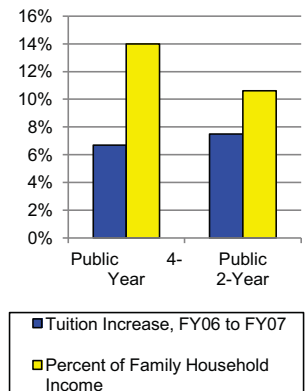
New Mexico reflected this national trend, particularly during the recession. As full-time equivalent (FTE) enrollment increased 10 percent between FY06 to FY11, state appropriations rose and fell for a net reduction in educational appropriations per student of 25 percent. With fluctuating state support, New Mexico public institutions raised tuitions, relying on an increase of 22 percent in net tuition revenue during this five-year period, a significant increase but still much lower than the national average of 43 percent for public institutions. Even as tuitions increased, New Mexicans paid the highest amount in the country in local and state taxes (\$14.64 of every \$1,000 earned) to support higher education institutions and affiliated agricultural and medical entities. The state allocated fewer state and tuition dollars to students in FY11, \$10.2 thousand per FTE, compared with \$12.5 thousand per FTE in FY06, as individual students and taxpayers paid more for postsecondary education.

In FY13, the state started to reverse this trend. The state invested in institutions and students by implementing and promoting policies to reduce individual costs and help students move toward faster program completion and graduation. Higher education funding stabilized with an infusion of new general fund support and institutions were allowed to keep more unrestricted revenues. The General Appropriation Act of 2012 included a disincentive to increase tuition significantly and rewarded institutions for student success. The committee recommends continuing these efforts and refining available tools – the instruction

Recession and Recovery Jobs Profile, by Education Level		
	Recession	Recovery
Bachelor's degree or better	↑ 187 thousand jobs	↑ 2 million jobs
Associate's degree or some	↓ 1.75 million jobs	↑ 1.6 million jobs
High school diploma or less	↓ 5.6 million jobs	↓ 230 thousand jobs

Source: Georgetown University, Center on Education and the Workforce

Rate of Tuition Increase and Household Allocation for Higher Education Expenses, 2007



Source: NCHEM, LFC Files

Between 2008 and 2010, median household income in New Mexico increased 6.6 percent. But, the average family would have paid 23 percent of its income for one year at the University of New Mexico or 19 percent of its income for one at New Mexico State University.

Source: U.S. Dept. of Education

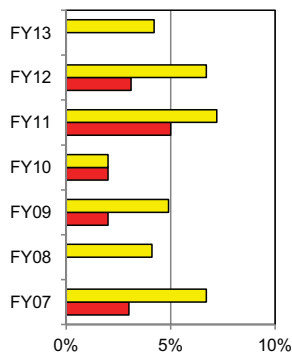
Higher Education

As a member of Complete College America's *Alliance of States*, New Mexico commits to

- Identify postsecondary completion goals through 2020,
- Develop action plans and policy levers to achieve these goals, and
- Collect and report common measures of progress.

Source: Complete College America, Alliance of States

Tuition Credit and Average Tuition Rate Increases, Four-Year Institutions



* No tuition credit was taken in FY08 or FY13.

■ Resident Undergraduate Tuition Increase
■ Tuition Credit

Source: LFC, Volume III

Goals for Revising New Mexico's Instruction and General Funding Formula

- Continue change from funding inputs and operations to outcomes;
- Fund student success outcomes, like academic progress, program completion, and graduation;
- Fund institutions for succeeding at their public missions;
- Provide stability and equity in funding institutions during formula transition and implementation of revisions; and
- Identify additional refinements and priorities for future work.

and general (I&G) funding formula, prekindergarten-grade 20 data system, and student financial aid policies – to support students and encourage institutions to maximize societal benefits of investments in higher education.

Improving Academic Progress and Increasing College Completion.

While New Mexico has yet to identify a college completion goal, national efforts have called for 60 percent of the adult population to have a postsecondary credential – professional certificate, associate's, or bachelor's degree – by 2025. For New Mexico, this would mean doubling the current population of 29 percent of adults with a postsecondary credential, from approximately 74.5 thousand to 145 thousand residents. The Legislature supports the Higher Education Department's (HED's) and institutional efforts to meet this target. As a member of *Complete College America*, New Mexico joined 30 states in the national effort to increase postsecondary completion and align funding and other tools with this goal. Likewise, many state public colleges and universities have joined *Project Degree Completion* to increase the number of residents with postsecondary credentials and degrees, reduce the time to complete programs, and improve services to help students at all entry points of the educational pipeline – from recent high school graduates to adults.

To accomplish the 60 percent goal, the state must ensure both recent high school graduates and adults are able to access and complete postsecondary programs. Whether because of their financial status, inadequate academic preparation, or age, many of these potential college students are considered “at risk” and require additional counseling and student services to increase their chances of staying in college and completing a program. Efforts to align state funding with programs and services that support these students can lead to improved performance by the most challenged students.

Funding Formula Priorities and Revisions. The HED has articulated the need to direct state funding toward improving student outcomes. Redeveloping the state's instruction and general (I&G) funding formula is the principal tool to accomplish this goal.

During the 2012 interim, the HED led a steering committee and technical committee in reviewing and revising the I&G formula used during the last year. While the committees were not tasked with presenting specific formula recommendations, the committees did help refine the existing student workload and statewide outcomes components, incorporating additional academic year data, more accurate workforce-related academic concentrations, and more current student financial-need data. In response to the Legislature's request for mission-specific measures, the committees developed and tested many measures that rewarded institutions for improving student academic progress and increasing research-based federal funding to the state. The HED will continue to work with institutions to collect data on these measures during the 2013-2014 academic year and validate these measures through the 2013 interim.

Higher Education

With the assistance of institutional leaders, the HED continued efforts to connect state funding with student and institutional performance measures in preparation for the FY14 budget process, but more work is needed. The department, DFA, LFC, and institutions should prioritize the following issues during the 2013 interim:

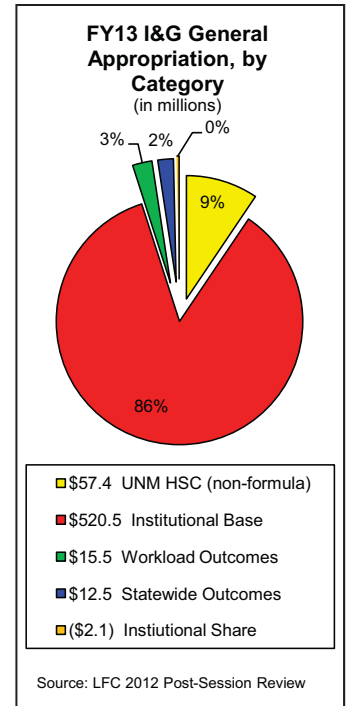
- Identify benchmarks for improving student course completion rates and increasing certificates and degrees to have 60 percent of New Mexicans with a postsecondary credential by 2025;
- Review existing formula components, particularly the workload matrix and awards matrix, to ensure these values represent many of the costs to provide courses and certificate and degree programs; and
- Review the institutional share component, comparing revenue changes over multiple years with annual changes.

To continue to allocate a greater percent of total I&G funding based on outcomes, the department should develop a plan that describes incremental increases in outcomes funding over a number of fiscal years. Articulating a plan will guide legislators during the appropriations process and help institutions better plan and revise programs and financial forecasts.

Streamlining Remediation. As reported in Complete College America's *Remediation: Higher Education Bridge to Nowhere* and its summary for New Mexico, too many recent high school graduates and adult students are assigned to remedial courses and take too long to complete a remedial series. These hurdles cost students' time and money, practically guaranteeing that students fail to make academic progress or graduate. During the 2012 interim, the governor requested institutions put forward plans to reduce remedial placements and change remedial course delivery to quicken student mastery. In response to the formula incentives and for other reasons, institutions are reviewing and changing student course placement. Both four-year and two-year institutions are coaching or advising students before taking placement exams and are requiring tutoring sessions or self-paced computer modules for problem topics. The sooner students can pass key college courses, the more likely students will make academic progress and complete programs.

Program Completion Time. New Mexico's college students take an average of 20 percent to 30 percent more credit hours than required for many certificate and degree programs. The more time students spend in college, the more likely they will exhaust limited financial aid on unrelated program courses and face the risk of dropping out without a credential. Under the I&G funding formula, institutions will receive more state appropriations if they streamline academic programs, improve articulation agreements between institutions, and require academic counseling that acknowledges to reduce deviations from program requirements.

State Economic and Workforce Goals. The HED, working with state agencies and national workforce data, is completing a review of workforce needs and projections to better target state investments in



Average Time to Complete Academic Programs (Credits Required/Credits Taken)			
	AS or BS Nursing	AA Lib. Arts or BA Gen. Stud.	Pre-Eng'r. or BS Eng'r.
Comm. Coll.			
Branches	75/106	63/80	71/113
Independ.	72/85	66/74	n/a
Comp. 4- Yr.	130/170	128/157	132/147
Research	128/172	129/150	135/161

Source: LFC, Institutional Survey

Higher Education

Instruction and General Funding Formula, HED FY14 Proposal

- (1) **Base year**
 - Adjusted FY13 I&G appropriation
- (2) **Statewide outcome measures**
 - Fund student workload: student credit hour enrollment less institutional course completion ratio
 - Fund change in total certificates and degrees earned between academic year 2009-2010 and academic year 2010-2011
 - Fund change in total certificates and degrees earned in science, technology, engineering, math, and allied health for same academic years
 - Fund change in total certificates and degrees earned by Pell-eligible students
- (3) **Institutional share**
 - Reduce general fund appropriation amount by other state and local government revenues received.

Proposed Review of Instruction and General Funding Formula Components, 2013 Interim

- (1) **Identify targets for improving performance on workload and statewide outcome measures**
- (2) **Refine Mission-specific measures**
 - Research institutions: recognize the percentage of total federal grant and contract funds institutions generated for the state
 - Comprehensive institutions: recognize student academic progress for 32 credit and 63 credit milestones.
 - Community colleges: recognize student academic progress for 32 credits and when students pass college-level English, reading, or math class after taking required remedial courses.
- (3) **Review workload and awards matrices to better reflect costs of providing courses and degree programs**
- (4) **Review institutional share calculations to mitigate for swings in other state and local revenues**

higher education. While a preliminary report is unavailable at this time, other efforts – particularly those related to implementing the Affordable Care Act – suggest the state will need more highly skilled and licensed health professionals, providing all levels of care and in many parts of the state. As data becomes available, the department, working with other agencies, employers, and institutions should identify hurdles to individuals entering the workforce and review student aid programs and other incentives to encourage program completion and provide key services in high need areas.

Institutional Missions. To gain broader economic benefits, the state provides funding to institutions to pursue their distinct missions. In addition to receiving nonrecurring general fund appropriations for research and public service projects, research institutions use state and other funding to secure federal and private-sector funding. These projects have spun off companies and created jobs. Regional or comprehensive four-year institutions provide targeted training and education opportunities to rural communities and in key workforce areas: nursing, teaching, and social work. Two-year institutions work with employers to provide training and credentials for middle-skill jobs (those not requiring a bachelor's degree). Middle-skill jobs, particularly in health care, oil and gas, renewable energy, water resources, and utilities, represent a growing segment of the state's workforce as individuals retire and technology demands employees with more education.

Higher education funding can be combined with other state resources to better meet economic goals. For example, in prior fiscal years, the state created higher education endowment funds for four-year institutions to support faculty and programs that required matching funds. Institutions matched the state's almost \$31 million investment for research activities that spun off for-profit companies and generated employment and intellectual property rights. The state might also consider revising its policies on federal Carl Perkins funds dedicated to vocational education, allowing funds to support existing vocational programs instead of only creating new ones. Further, following the lead of Louisiana and Kentucky, the HED might consider working with the Workforce Solutions Department, Human Services Department, and others to identify ways to combine federal and state resources and link workforce training, education, and benefits programs for some of New Mexico's most vulnerable adults.

Educational Delivery and Support Tools. For decades, New Mexico focused on facilities-based educational delivery, as evidenced by the state's 27 public postsecondary institutions and 31 university and college learning sites. As students demand more flexibility in educational schedules and articulate greater preference for online learning opportunities and the cost for maintaining and replacing college facilities increases over time, the state should evaluate and support productive, efficient, and cost-effective ways to deliver education and increase educational attainment.

Technology. Based on the Educause Center for Applied Research's *ECAR Student of Undergraduate Students and Information Technology*

(2012), postsecondary students, whether recent high school graduates or adults, expect colleges and universities to use technology and programs to enhance learning, deliver academic and support services, and serve as a means of communicating with others in the institution. Students use their devices – increasingly laptops, smartphones, or tablets – to access course information, check grades, use course or learning management systems, make education-related purchases, access library resources, register for classes, and check financial aid information. They increasingly enroll in and prefer courses that combine some online components (“blended learning”) with traditional lecturing and expect instructors to use technology effectively to enrich teaching.

As educational delivery increasingly encompasses more than a facilities-centered approach, the HED, Public Education Department, and institutional leaders should work together to determine the resources needed to expand educational access and improve learning, whether that results in updating and transforming existing infrastructure, improving programs, or developing other methods. Some states, including Texas and Indiana, have endorsed Western Governors University as the online institution dedicated to serving the educational needs of working adults, while New Mexico has not adopted a clear policy targeting these students. Coming together and offering a proposal to improve retention, program completion, and graduation that incorporates a more efficient use of facilities and alternative educational deliveries could guide the Legislature in identifying revenues and performance benchmarks.

Facilities. In April 2011, the governor and many higher education institutional leaders agreed to a voluntary, two-year moratorium on building new educational facilities, with some exceptions, to assess the state’s educational needs and means to deliver education; however, such an assessment has yet to be conducted. Given the state’s large number of institutions and learning sites and small population size, there remains a concern whether the public can afford to maintain existing, much less, additional educational facilities.

During the last four years, state appropriations for building repair and replacement declined, with state funding for operations and maintenance frozen at FY12 operating levels. With the defeat of the statewide 2010 general obligation bond initiative for higher education, state borrowing capacity has been limited. Voters approved the 2012 general obligation initiative for higher education institutions and special schools, providing up to \$120 million for improvements to aging facilities. Without a plan to address aging facilities and expanding enrollments, potential postsecondary students might increasingly seek educational opportunities offered by out-of-state institutions with an online presence or local, for-profit institutions. The committee recommends the HED conduct a review of existing facilities, identifying underserved areas, and propose a plan to use existing revenues or nonrecurring funds to improve educational delivery to residents.

Outreach and Participation in Distance Education, New Mexico Four-Year Institutions

- NMSU has steadily increased the number of degree programs offered online, growing to 37 in FY13.
- UNM has consistently increased the number of degrees awarded through its Extended University, surpassing its target of 290 in FY12 by 262 degrees.
- NMIMT has maintained a consistent annual enrollment of approximately 350 students taking distance education courses.
- All comprehensive institutions have grown the number of students enrolled in extended services beyond institutional annual performance targets. In FY12,
 - ENMU grew 19.3 percent
 - NMHU grew 19.3 percent
 - NMMC grew 11.3 percent
 - WNMU grew 35.9 percent

Source: 2012 Performance Effectiveness Report, Council of University Presidents

Barriers to State Oversight of For-Profit Schools

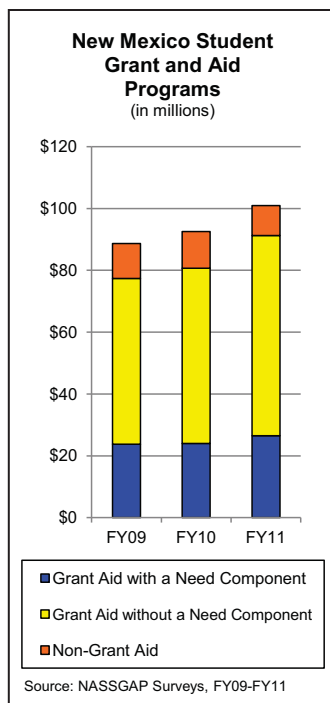
- Lack of staff and resources,
- Inadequate fees to fund enforcement and oversight,
- Diluted resources,
- Conflicts of interest where proprietary school leaders serve on advisory or regulatory boards, and
- Powerful for-profit school lobby.

Source: National Consumer Law Center

Largest State-Supported Financial Aid Programs, FY12			
	Total (in thous.)	Total No. of Awards	Avg. Award (in dollars)
3% Scholarships	\$12,002.6	9,448	\$1,270
Athletic Scholarships	\$9,919.2	1,654	\$5,997
Legislative Lottery Scholarships	\$58,185.9	21,157	\$2,746
Student Incentive Grants	\$10,281.0	14,369	\$716
State Work-Study	\$6,416.6	2,257	\$2,843

Source: HED, Estimated

Higher Education



Unmet Need for Loan-for-Service and Loan Forgiveness Programs, FY13	
Medical LFS	27.3%
Nursing LFS	48.0%
Allied Health LFS	60.0%
Teacher LFS	47.4%
WICHE Veterinary Medicine LFS	72.4%
WICHE Dental LFS	61.5%
Health Professional Loan Repayment Program	89.2%
Minority Doctoral Loan Forgiveness	83.3%
Nurse Educator Loan Forgiveness	83.3%
Law Loan Repayment	42.9%

Source: HED, Estimated

Proprietary Institutions and Student Demand. Nationally, enrollment at for-profit or proprietary postsecondary institutions continues to grow, from 3 percent of all postsecondary students in 2000 to 9 percent in 2009, with the majority of students participating in undergraduate, four-year programs. On average, students attending such schools pay up to 80 percent more than public two-year institutions and 45 percent more than public four-year institutions. While proprietary school financial aid packages tend to be larger than public counterparts, the mix of aid reflects more borrowing and lower average grant amounts. Bachelor's degree programs in for-profit schools have lower graduation rates, no matter the time to degree, than public institutions. The completion rates are even lower for certain ethnicities. New Mexico mirrors the national trend.

The HED's private and proprietary school program continues to be chronically understaffed and unable to maintain sufficient oversight of the growing number of for-profit institutions registered in the state. To address this matter, the department requested, and the committee recommendation supports, an increase in using licensing fee revenues to revise existing regulations according to federal and nationally developed standards for such institutions, inspect more institutions and track compliance with state law, and complete necessary enforcement actions to protect New Mexico consumers.

Student Financial Aid. In FY12, New Mexico spent more than \$80 million on student financial aid, including \$58 million for the legislative lottery scholarship program and \$10.7 million for student incentive grant program. Nearly 20 other state grant and loan programs serving both undergraduate and graduate students account for the remaining \$11.3 million. As noted in the HED's financial audits for FY10 and FY11, the HED lacks sufficient data to analyze whether the state's many programs are fiscally sound. Consistent with a 2008 LFC evaluation of state student aid programs, the department should review and overhaul state aid programs to support improved delivery and improve the state's return on investment, particularly in the loan-forgiveness and loan-for-service programs.

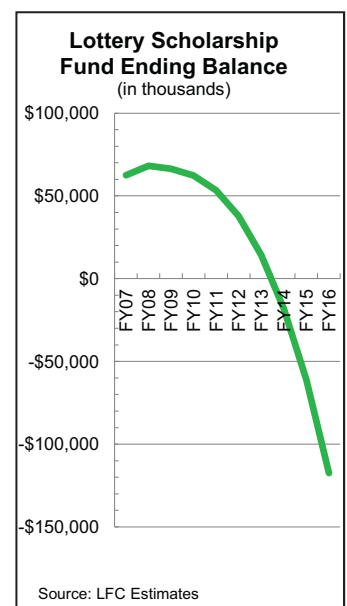
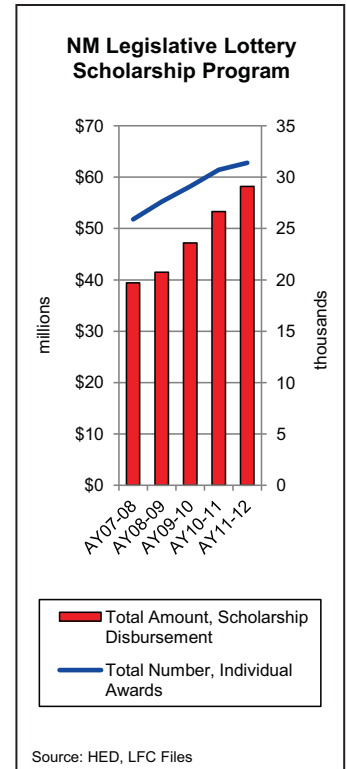
Student Aid and College Completion. To move the needle on academic progress and college completion, the HED and institutions should review state and institutional aid programs to determine where program resources can be combined or awarded in tandem to help students with financial need improve retention and completion rates. Recent studies from the higher education coordinating boards in Louisiana and Oklahoma have demonstrated that, after controlling for an entering student's high school grade point average, a combination of state grant aid and federal aid will increase retention rates among students with financial need. In New Mexico, students participating in an institution-sponsored scholarship program that requires academic counseling and full grant payments conditioned on successful course completion have demonstrated increased semester course loads and higher grades. By including state financial aid programs in the arsenal of state appropriation and policy tools, the state can have a more comprehensive approach to improving student performance and address economic interests.

Higher Education

Legislative Lottery Scholarship Program. The legislative lottery scholarship program is the state's largest aid program, rewarding high school academic performance and sustained progress in college. Program costs have increased due to slightly rising student eligibility and demand and steadily increasing tuition levels. Passed during the 2012 legislative session, House Joint Memorial 14 called for a legislative and executive task force to address the projected loss of lottery fund balance and relatively flat lottery revenues. The task force did not meet, though the department and legislative staff have examined possible solutions to address solvency and align the scholarship program with other state college completion goals.

For FY14 (academic year 2013-14), the LFC projects fall 2013 semester awards can be met fully with incoming lottery revenues and remaining fund balance, but it is unlikely spring 2014 awards can be met fully. The projected annual shortfall is an estimated \$5 million. By law, the department will announce the award amount for FY14 by May 2013, and the announcement might address the shortfall. For FY14, the Legislature could condition a supplemental appropriation of nonrecurring funding for this amount on a program review and the development of a solvency plan by the start of the 2014 legislative session.

For FY15 (academic year 2014-15) and without any action by the executive or legislative branches, either fall and spring awards would be capped at lottery revenues or an estimated \$40 million annually (compared with approximately \$60 million in scholarship need projected for FY13).



State of New Mexico's Children

- Using 16 indicators, the Annie E. Casey Foundation in the 2012 *Kids Count* ranks New Mexico 49th for child well-being in the areas of education, health, family and community, and economic well-being. In 2011, New Mexico ranked 46th.
- The National Center for Children in Poverty reports 25 percent of young children in New Mexico experience three or more risk factors impacting health and social development, 29 percent are in families earning less than 100 percent of federal poverty level (FPL), and 31 percent live with families where no parent had full-time year-round employment in 2009.
- The Department of Health reported child deaths (ages 1-4) occurred 43.6 times per 100,000 in 2011, a number that has been steadily rising since 2009.

A U.S. Department of Health and Human Services study found the more risk factors children from birth to 36 months experienced, the greater their chance of experiencing cognitive, emotional, social, and physical development problems.

Risk factors include child maltreatment, caregiver mental health problems, minority status, low caregiver education, a single caregiver, biomedical risk condition, poverty, teenage caregiver, domestic violence, four or more children in the home, and caregiver substance abuse.

Research on brain development shows that learning experiences and health from before birth to age 5 greatly impact future success or failure in society. Investments in high-quality early childhood programs produce future savings on special education, remedial education, teenage pregnancy, juvenile rehabilitation, and welfare assistance. The current array of early childhood programs in New Mexico lack coordination, high-quality standards, and sufficient resources to drastically improve child outcomes statewide.

Prenatal to Age 3 Outcomes. According to the March of Dimes, approximately 580 babies are born in New Mexico each week: of those, 87 babies are born to teen mothers, 71 are born pre-term, 49 have low birth weight, and four will die before their first birthday. National rankings and the state's Department of Health indicate New Mexico's youngest children are at high risk for cognitive, social, and developmental delays. Early prevention and intervention programs, such as home visiting, provide services to help mitigate the risk factors faced by New Mexico's children.

Neuroscience research indicates the brain and other biological systems in the body rapidly develop during early childhood. Healthy development from before birth to age 3 is linked to children who are more successful in school, adults who are productive contributors to the economy, and individuals who lead healthier, longer lives. Risks experienced by children in New Mexico include preterm births, low birth weight, poverty and child abuse and neglect. These risk factors lead to toxic stress, or trauma, in children, which might cause a host of problems including, interference with memory processing, dissociation, isolation, and the inability to manage emotions. Additional funding might produce better outcomes for New Mexico's infants and toddlers.

Early Childhood Programs. To yield high returns on early childhood investments, New Mexico's early childhood programs should be aligned into a comprehensive system with a method to track children's progress. Presently, early childhood program-specific results and the outcomes associated with participation in the continuum of programs from birth to age 5 and into the public school system cannot be identified. The state's prekindergarten program is the only early childhood program that collects, analyzes, and reports data on child outcomes.

The Legislature continues to demonstrate its commitment to New Mexico's youngest children by prioritizing funding for early childhood programs. During the most recent recession and slow recovery, the Legislature increased general fund appropriations for early childhood programs. From FY09 to FY13, the Legislature increased general fund spending on child care by \$11.6 million, or 63.7 percent; home visiting by \$1.3 million, or 65.8 percent; and prekindergarten by \$3.68 million, or 23.7 percent.

Despite the Legislature's significant investment in early childhood programs, the investment will be insufficient to significantly impact

Early Childhood

child outcomes if the programs continue to operate in inefficient silos, lacking infrastructure and capacity. Leadership is necessary to align programs into a continuous system and implement a unique child identifier to provide program accountability and longitudinal outcome information. Both the Legislature and the administration must understand which programs are working, how well they are working, and where there is duplication. This type of data can be used to prioritize early childhood spending and leverage additional federal and foundation funding.

Home Visiting. Home-visiting services support pregnant women and new families and facilitate positive parenting, safe homes, and connections to community services to improve maternal and child health. Home visiting is viewed as a delivery strategy for primary prevention services that are informational, developmental, and educational.

The Legislature appropriated \$3.2 million to the Children, Youth and Families Department (CYFD) in FY13 for home visiting, with a priority on serving low-income families in at-risk communities. Building a network of providers, especially in rural New Mexico, is essential for home-visiting services to reach New Mexico's most at-risk children.

Higher returns on childhood investments are possible when rigorously evaluated evidenced-based models are implemented. Evidenced-based home-visiting models that are intensive (weekly visits), targeted to at-risk children, and contain a medical component have been shown to have the greatest impact. New Mexico received a federal home visiting development grant to implement two evidenced-based models – the Nurse-Family Partnership (NFP) model in Albuquerque's South Valley and the Parents as Teachers model in McKinley County. The LFC New Mexico Results First cost-benefit analysis on NFP indicated a \$5 return for every \$1 spent. Evaluations of randomized controlled trials show the NFP home-visiting model reduces child abuse and neglect by 20 percent to 50 percent. Prioritization of evidenced-based models is essential to impacting outcomes for infants and toddlers.

Family, Infant and Toddler Program. The Family, Infant and Toddler (FIT) program serves infants and toddlers ages 0 to 3 with or at risk for developmental delay or disability, as well as providing services to the families. The FIT program receives funding from Medicaid, federal funds, private insurance, and the general fund. The FIT program served 13,315 children in FY12, a 3.5 percent decrease from FY11. The reduction in children served is a result of state statutory changes wherein 4-year-olds are no longer eligible for services. The program also instituted cost-containment measures due to reductions in federal American Recovery and Reinvestment Act (ARRA) funds and changes in the Medicaid match rate and provider agreements.

Childcare Funding. Childcare assistance not only allows low-income families to work or attend school; it also provides an opportunity to enhance children's healthy cognitive, emotional, social, and physical development. Studies show that high-quality early care and education

Low Birthweight Rates	
U.S.	8.2%
New Mexico	8.5%
Harding County	26.7%
Catron County	13.8%
Guadalupe County	12.7%
Colfax County	12.6%
Mora County	12.1%
Quay County	11.4%
Rio Arriba County	11.3%
Torrance County	10.7%
Los Alamos County	10.4%
San Miguel County	10%
Sierra County	10%

Source: DOH

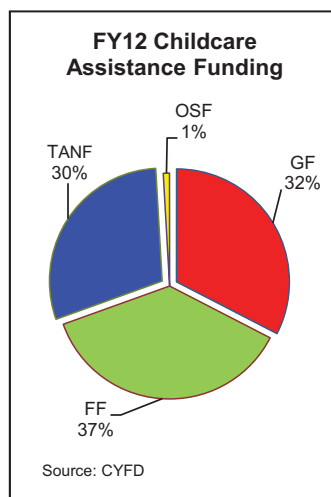
Teen Pregnancy Rates per 1,000	
U.S.	20.1
New Mexico	33.1
Luna County	65.5
Quay County	58.3
Lea County	56.7
Curry County	53.8
Grant County	46.8
Cibola County	44.3
Guadalupe County	44
Eddy County	43.5
Socorro County	43.4
Hidalgo County	42.8
Chaves County	42.6

Source: DOH

Early Childhood

Currently, twelve evidence-based home visiting models have met the U.S. Department of Health and Human Services criteria for evidenced-based models:

1. Early Head Start – Home Visiting Option
2. Family Check-Up
3. Healthy Families America
4. Healthy Steps for Young Children
5. Home Instruction Program for Preschool Youngsters
6. Nurse-Family Partnership
7. Parents as Teachers
8. Early Intervention Program for Adolescent Mothers
9. Child FIRST
10. Play and Learning Strategies Infant
11. Oklahoma Community-Based Family Resource and Support



programs increase school readiness. However, the CYFD does not currently measure child outcomes in its childcare program. Current childcare performance data does not indicate whether higher quality programs are making a difference in cognitive or social development or whether the public school system is saving money on remedial instruction.

Demand for childcare assistance exceeds current funding levels. Funding is insufficient to meet the needs of eligible families with incomes up to 200 percent of the federal poverty level (FPL), or \$46,100 a year for a family of four. In January 2010, the CYFD implemented a waiting list for all clients with incomes between 100 percent and 200 percent of the FPL.

In fall 2011, the childcare assistance waiting list reached almost 7,000 children, with a significant portion of children in families with incomes between 100 and 150 percent of the FPL. In May 2012, the CYFD sent letters to the families on the waiting list in that income bracket indicating the families would receive childcare assistance; however, only 13 percent of the families responded to the letter. Those that did not were removed from the waiting list. As of September 2012, the scrubbed childcare assistance waiting list fell to 3,978, with 44 percent of the children in families with incomes between 100.1 percent and 149.9 percent of the FPL.

For FY13, the Legislature appropriated \$86.2 million for childcare assistance, with \$29.8 million appropriated from the general fund. This is a 4.9 percent increase over FY12. The CYFD estimates 22 thousand children will be served monthly at this funding level. In FY12, on average, 20,778 children received monthly childcare assistance. Additional funding for childcare assistance should be used to raise the income limit to a level above 100 percent of FPL, or \$23,050 a year for a family of four.

The CYFD is working on cost-containment measures with the potential of saving the childcare assistance program several million dollars. Cost-containment strategies include a requirement for single parents to register with the Child Support Enforcement Division of the Human Services Department and changing the reimbursement rate for after-school care for school-age children from full-time to a rate based on the number of hours a child is in need of childcare services.

Early Childhood Investment Zones. The CYFD identified 35 early childhood investment zones where children are at greatest risk of school failure and infrastructure is needed to deliver high-quality early care and education programs. Investment zones are selected and ranked by aggregating adverse childhood experiences and assessing a community's readiness to establish models of community capacity building, infrastructure development, and the establishment of comprehensive and aligned early childhood care, health, and education services. In FY13, the CYFD selected 10 investment zone sites to focus on building capacity.

Early Childhood

Prekindergarten. New Mexico's prekindergarten program provides services in public schools and in nonpublic settings, such as community childcare centers. Prekindergarten addresses the total developmental needs of preschool children, including physical, cognitive, social, and emotional needs, and includes health care, nutrition, safety, and multicultural sensitivity. Two-thirds of enrolled children at each site must live in a Title I elementary school zone (where at least 40 percent of the students are enrolled in the federal free and reduced-fee lunch program).

Head Start. Early Head Start and traditional Head Start are federally funded, community-based programs for low-income families. Early Head Start programs promote healthy prenatal outcomes for pregnant women, enhance the development of very young children, and promote healthy family functioning. Head Start serves 3- and 4-year-old children with comprehensive preschool and child development services. All children in Head Start are served in pre-school classrooms, whereas in Early Head Start (EHS) the majority of children are served in the home. In federal fiscal year 2012, New Mexico received \$13.9 million for EHS to serve 1,160 children and traditional Head Start received \$46.6 million to serve 6,655 children in 13 Head Start programs.

Department of Health birth record data from 2009 to 2011 shows an average of 27,973 births year. Assuming no duplication and that 50 percent of Head Start children are 4 years old, approximately 28 percent of all 4-year-olds in New Mexico were served by prekindergarten or Head Start in FY12.

Improving Quality. In January 2013, the CYFD will pilot Focus, the third iteration of a tiered quality rating and improvement system (TQRIS) in New Mexico. Focus is based on the New Mexico early learning guidelines for classroom observation, assessment, and curriculum planning and will provide data on child outcomes associated with high-quality childcare settings. The new TQRIS will provide on-site consultation that focuses on helping early childhood practitioners improve their performance through intensive professional development and a continuous quality improvement plan.

The federal Race to the Top-Early Learning Challenge (RTT-ELC) grant supports building capacity and improving quality in early childhood care and education programs. New Mexico was awarded \$25 million over five years to build infrastructure and capacity. The grant application prioritized the implementation of the new Focus TQRIS and professional development.

The Training and Technical Assistance Programs (TTAPs) and the Teacher Education Assistance for College and Higher Education (T.E.A.C.H) programs are intended to improve quality at childcare facilities. The TTAPs provide free on- and off-site quality improvement services to childcare providers. Most early childhood teachers in New Mexico have not had formal education in child development and early learning and the T.E.A.C.H. Scholarship Program allows them to complete a college degree in early childhood education while working in childcare settings.

Economic benefits of high-quality early childhood interventions tend to be greater for programs that effectively target at-risk children than for programs that serve all children. Research shows investments in early childhood programs have the potential to generate savings to society through increased taxes paid by more productive adults and significant reductions in public expenditures for special education, grade retention, welfare assistance, and incarceration. Cost-benefit analyses for programs indicate the returns to society for each dollar invested can extend from \$1.80 to \$17.07. For example, the National Institute for Early Education Research provided an economic impact analysis that estimates \$5 in benefits is generated in New Mexico for every dollar invested in prekindergarten.

Percent of 4 Year Olds in Prekindergarten or Head Start Programs in FY12		
	# Served	% Served
Head Start	3,328*	11.9%
CYFD Prekindergarten	2,189	7.8%
PED Prekindergarten	2,380	8.5%
Total	7,897	28.2%

*Head Start program except 3- and 4-year-olds.
Figure assumes 50 percent split.

Source: CYFD and PED

Medicaid currently provides coverage to 517 thousand New Mexicans, including 336 thousand children. The U.S. Census Bureau reports almost 400 thousand New Mexicans were uninsured in 2011, 19.6 percent of the population.

Benefits of the Medicaid expansion include improved health of uninsured adults, improved availability of substance abuse treatment, and reduction in uncompensated care.

Challenges to ACA implementation include the need to modernize enrollment systems, the need to implement new provider contracts under Centennial Care, the need to develop a health insurance exchange, the need to ensure adequate provider networks, and the future of Medicaid funding given federal solvency concerns.

Federal Match for Newly Eligible in Medicaid		
	ACA Match	HSD Projected Match
FY14	100%	97.5%
FY15	100%	97.5%
FY16	100%	97.5%
FY17	95%	94.2%
FY18	94%	92.4%
FY19	93%	91.5%
FY20	90%	88.3%

Source: HSD, LFC files

Full implementation of the Patient Protection and Affordable Care Act (ACA) begins January 1, 2014 and will impact the health sector. Significantly, as of December 2012, the governor had not made a decision on expansion of Medicaid eligibility for low-income adults, which could add up to 89 thousand new enrollees to the program in 2014. Regardless of that decision, thousands of New Mexicans will be seeking health insurance coverage through the ACA-mandated health insurance exchange in 2014. Meanwhile, the state continues to struggle to maintain cost-effective services in the regular Medicaid program and continues to grapple with improving the developmental disabilities (DD) program.

Patient Protection and Affordable Care Act. On March 23, 2010, President Obama signed H.R. 3590, the Patient Protection and Affordable Care Act (P.L. 111-148), and on March 30, 2010, signed H.R. 4872, the Health Care and Education Affordability Reconciliation Act of 2010 (P.L. 111-152). Together, these bills make up federal healthcare reform and are commonly known as the Affordable Care Act (ACA).

Medicaid Impact. The first of the two principal mechanisms to provide health insurance coverage under the federal law is expansion of Medicaid eligibility to those adults with incomes under 133 percent of the federal poverty level (FPL), or about \$31,809 for a family of four. A special adjustment to the calculation of income will bring the effective income eligibility rate to 138 percent of FPL. The other mechanism subsidizes those with incomes between 133 percent and 400 percent of the FPL to purchase insurance through a health benefit insurance exchange.

The Human Services Department (HSD) estimates about 162 thousand of the estimated 400 thousand uninsured New Mexicans will qualify for Medicaid under the new expansion. Another 20 thousand children, already eligible for coverage under Medicaid or the Children's Health Insurance Program (CHIP), might enroll due to the mandate to carry insurance. The vast majority of uninsured individuals not eligible for the Medicaid program are expected to purchase federally subsidized health insurance at the state exchange or through private insurance.

Cost and Financing of Medicaid Expansion. The federal government will pay 100 percent of the cost of enrolling the newly eligible adult population in Medicaid from 2014 to 2016, stepping down to 90 percent by 2020 and all following years. However, HSD does not assume full 100 percent federal coverage for the newly eligible clients the first three years; they assume a lower federal match for about 8 percent of the newly eligible adults because they project some will have kids and be moved into a "parents" category of eligibility under the regular Medicaid program.

In May 2012, HSD estimated the general fund cost of newly eligible adults due to the Medicaid expansion would be \$6.4 million in FY14

(six months), rising to \$118.8 million in FY20. Subject to final federal approval, HSD assumes 37 thousand individuals covered by the State Coverage Initiative (SCI) insurance program will transfer into Medicaid at the same favorable federal match rate as the newly eligible clients.

The HSD cost projection (and the FY14 budget request) includes a \$7.6 million general fund impact from enrolling 11,309 currently eligible (but not enrolled) adults and children (commonly called the “woodwork effect”) into Medicaid. The HSD assumes these individuals will be enrolled because of interaction with the health insurance exchange. Debate continues about whether to include woodwork enrollment as an additional ACA-related cost (HSD’s methodology) or as part of the base Medicaid program. LFC analysis on the expenses and revenues for expansion of Medicaid for low-income adults does not include woodwork enrollment because it is assumed to be a cost affecting the regular Medicaid program.

ACA-Related Revenue Impact on Overall Cost. LFC analysis in October 2012 (see table below) showed the state cost for expanded Medicaid adult enrollment in FY14 to FY17 is offset entirely by cost savings (even without new ACA-related revenue). These savings are due to the high federal match rate for the newly eligible and from an enhanced match for the 37 thousand SCI enrollees. This ends in FY18 when the federal match for newly eligible drops to 94 percent. By 2020, LFC staff estimate the state’s cost would be \$113 million for 131,044 newly covered adults.

During FY18 to FY19 the cost of expansion is offset by growth in ACA-related state revenues, including personal income taxes, gross receipt taxes, and premium taxes. Also, the state will benefit from reduced enrollment in the New Mexico Medical Insurance Pool (NMMIP). For example, ACA-related revenues of \$91.6 million in FY19 will offset expenditures of \$42.5 million. These revenue and expenditure and impacts of ACA are expected to continue in the out-years.

Revenues and Expenditures from Medicaid Expansion (General fund in millions of dollars)							
	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Total Revenues	19	74	83	87	89	92	93
Total Expenditures	(14)	(25)	(35)	(12)	23	42	113
State Gain/(Loss) *	33	99	118	99	66	49	(20)
* Revenues minus expenditures				Sources: BBER, HSD, LFC Files			

The ACA will also have an impact on the county indigent fund, sole community hospitals, disproportionate share hospitals, and other healthcare programs. Almost 20 tax expenditures representing \$290 million in foregone tax revenue are related to health care. With the possible expansion of Medicaid under ACA, many of these tax

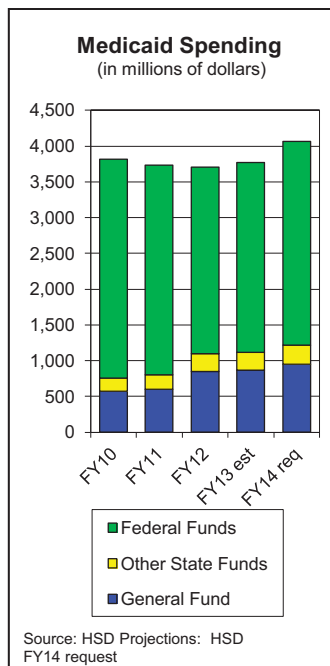
Medicaid Eligibility for Low-Income Adults Under Affordable Care Act	
Family Size	138% FPL
One	\$15,415
Two	\$20,879
Three	\$26,344
Four	\$31,809

Source: 2012 Federal Poverty Level Table

New Enrollment from Expansion of Medicaid for Low-Income Adults	
FY14	89,114
FY15	105,847
FY16	122,515
FY17	126,844
FY18	126,977
FY19	131,108
FY20	131,044

Source: HSD Projections

If the state chooses to expand Medicaid, the revenues outweigh the expenditures in the first six years, even as the match is phased down. When the program is fully implemented in FY20 the state will incur additional costs that may increase in the out-years. Under this high-level scenario, the state will gain \$32 million in FY14 but will begin to pay an additional \$20.3 million in FY20.



credits will require further review. Under ACA, access to healthcare services should increase, potentially eliminating the need for some of these credits.

The Health Insurance Exchange and High-Risk Pools. The ACA also requires the creation of health insurance exchanges by 2014 to offer federally subsidized group-rate private health insurance to small employers and individuals with incomes between 133 percent and 400 percent of the federal poverty level. The exchange will require seamless transition and communication with the state's income eligibility systems, including its Medicaid program. During the 2011 legislative session, the Legislature passed Senate Bill 38, the New Mexico Health Insurance Exchange Act. That bill was vetoed; however, the state continues to work on implementation of the exchange. If needed, exchange related legislation could be passed during the 2013 session.

Future of Medicaid Funding Given Federal Solvency. States have expressed concern that future federal funding for Medicaid expansion might not fully materialize, particularly if the federal government fails to address the federal budget deficit. According to the Federal Funds Information for States and the Congressional Budget Office (CBO), the ACA Medicaid provisions result in approximately \$642 billion in additional federal spending from FY12 to FY22. Congress has introduced several deficit reduction proposals including modifying federal matching rates for Medicaid, converting Medicaid to a block grant, and reducing states' ability to draw down federal Medicaid dollars; however, none of these proposals have passed.

Medicaid Budget. Total New Mexico Medicaid expenditures are projected to reach \$4.06 billion in FY14 – \$288 million more than the FY13 projection. Of note, HSD's FY14 budget request does not include funding for expanding Medicaid for low-income adults on January 1, 2014, as authorized by the federal Affordable Care Act (ACA), but does include approximately \$22.3 million in ACA-related costs.

For the past two fiscal years ending in FY12, the HSD essentially put the brakes on Medicaid growth, with total managed care expenditures declining from \$2.57 billion in FY10 to \$2.42 billion in FY12. Key factors leading to this outcome include provider rate reductions, funding the managed-care organizations (MCOs) near the lowest range on the rate schedule determined by actuaries, freezing SCI enrollment, and reducing enrollment outreach efforts. The HSD also benefited from an overall slowing of medical cost growth and demand in recent years.

However, while physical health (as well as Medicaid behavioral health) had minimal growth since 2009, growth in the Coordination of Long Term Services (CoLTS) waiver program has been significant. Total program cost in FY13 is projected to be \$989 million, which represents a \$191 million increase, or 24 percent, over FY10. Representing only 7.6 percent of enrollment, CoLTS was

almost 24 percent of all Medicaid expenditures in FY12. The average cost for a CoLTS client was \$21,468, compared with \$3,156 for physical health clients (predominately children). Over time, especially if the state does not expand eligibility for low-income adults in 2014, expenditures for CoLTS might exceed physical health expenditures. The HSD must tightly manage the enrollment and benefits for this population to maintain control over Medicaid cost growth.

Moving forward, key questions remain, including those concerning the impact of new MCO contracts on costs for FY14 and the willingness and capacity of these contractors to provide a network of service providers to serve the Medicaid population. Many hospital groups and providers are building capacity in anticipation of Medicaid enrollment growth; if the state delays Medicaid expansion, these providers will have costs to recoup. Cost growth in the long-term services area, due to growth in the CoLTS population, is a major risk going forward; children remain a very inexpensive population to serve, but enrollment increases are possible if the administration reaches out to this population, as desired by advocacy groups.

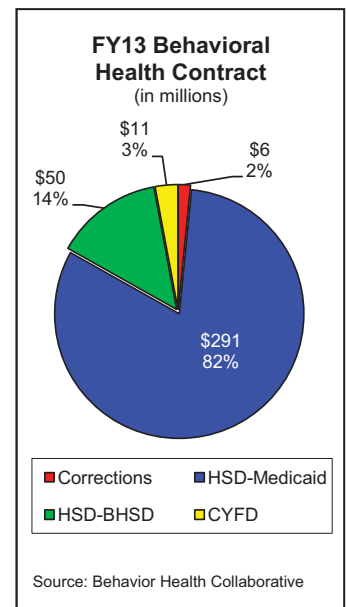
Centennial Care. The HSD submitted a Section 1115 Medicaid waiver to the federal government to implement Centennial Care beginning January 1, 2014. Key elements of the waiver include consolidation of all 12 current waivers (except developmental disabilities) into a single waiver to reduce administrative complexity, integrated care and improved case management, integrated physical and behavioral health care (provided by fewer managed-care organizations), and payment reform targeted at paying for improved patient outcomes. Submittal of the waiver request was needed to consolidate the provision of services provided under multiple waivers into a single waiver and to request approval for recipient rewards for wellness and for certain emergency room related co-pays. Of note, the HSD projects the plan should slow program growth by up to 2 percent over the five-year life of the Medicaid plan waiver, possibly saving up to \$138 million in state funds. However, the department does not anticipate savings to materialize during FY14.

Behavioral Health Care. Created in 2004, the Behavioral Health Purchasing Collaborative (BHPC) was designed to develop, manage, and support a single behavioral healthcare delivery system in New Mexico. The collaborative functions as a virtual agency, pooling funding from five agencies to buy a managed-care product from a so-called statewide entity – currently, OptumHealth NM, a subsidiary of United Healthcare – to manage mental health care and substance abuse treatment services. Since inception, the collaborative has been moving toward a system of care that emphasizes comprehensive community support services, as part of its effort to promote community over residential treatment.

Base Medicaid Enrollment and Growth (excludes SCI and ACA Expansion)		
	Fiscal Year-End Enrollment	Growth Rate
FY09	464,141	3.5%
FY10	490,257	5.0%
FY11	506,037	2.2%
FY12	518,504	2.0%
FY13	527,946	1.1%
FY14	539,919	1.5%

Source: HSD Reports

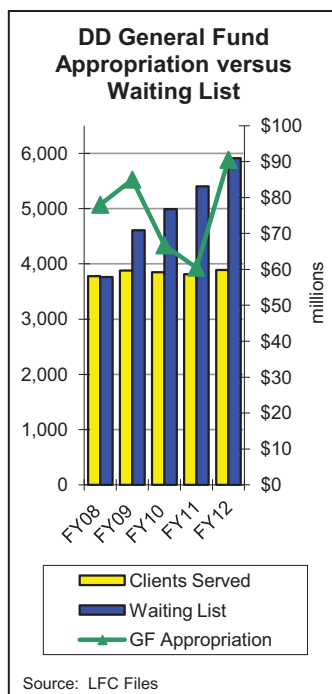
Expansion of Medicaid for over 149 thousand low-income adults under the Affordable Care Act could provide a major boost to the availability of substance abuse treatment.



Health Care

The future of the collaborative, which completed the third fiscal year with OptumHealth, is under discussion as part of Medicaid reform. As part of new contract awards for managed care, planned for implementation on January 1, 2014, the HSD is planning to bring behavioral health back under the umbrella of physical health.

The HSD believes integrating these services as part of a behavioral health home approach for care will have definite benefits for patients. However, it remains to be seen if this proposed change will help address core issues of poor substance abuse outcomes and provider shortages that currently plague New Mexico.



The BHPC provides the majority of state-funded substance abuse and mental health services. However, coordination of a comprehensive, statewide behavioral health system is hampered, in part, because funding is distributed among executive branch agencies, the judiciary, and individual counties. Despite seven years of collaboration, significant gaps in service availability remain. And despite good results on BHPC performance measures, New Mexico ranks near the bottom for per-capita overdose rates, alcohol addiction, and suicides. The BHPC has minimal data on outcome-oriented measures, such as the rate of patient relapse.

Medicaid Waiver Programs. New Mexico has five waivers under the Medicaid program to allow home- and community-based services for certain patients. The waivers and dates of implementation are as follows: developmental disabilities (DD), 1984; disabled and elderly (D&E), 1983; medically fragile (MF), 1984; human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS), 1987; and *Mi Via* self-directed waiver (which includes the long-term brain injury program), 2006. The DD, MF and HIV/AIDS waivers are funded through the Department of Health (DOH) and receive federal Medicaid matching revenues through the HSD. Beginning in FY12, the D&E and *Mi Via* waivers were transferred from the Aging and Long-Term Services Department to the HSD. The key issue the state faces for the largest of these waiver programs, DD and D&E, is demand that exceeds available slots despite almost continuous increases in state funding. Yet despite an increase of an additional \$1 million in FY12 for the DD waiver, the Department of Health reverted back to the general fund \$2.9 million of unspent funds from the DD waiver program.

Developmental Disabilities Medicaid Waiver Status. At the end of FY12, 3,888 developmentally disabled (DD) clients were receiving services under the DD waiver. The number of developmentally disabled clients served under the DD waiver increased by a net total of 40 clients during the last three years. However, 5,911 individuals were on the DD waiver waiting list in FY12, an increase of 923 during the last three years. During the 2011 session, the Legislature added \$1 million in general fund revenue in the General Appropriation Act (GAA) to the DOH appropriation for the DD waiver and a policy directive to enroll an estimated 50 individuals eligible from the waiting list; during the 2012 session, the Legislature added \$2.77 million to the DOH appropriation to enroll up to 150 additional clients from the DD waiver waiting list. But to date, the Department of Health has enrolled relatively few of these additional clients.

DD Waiver Costs. The 2012 GAA includes \$95.7 million from the general fund for DD waiver services, an increase of \$6 million from the 2011 appropriation. Although funding for DD waiver services increased, the average cost per client also increased approximately \$3,500 or 8 percent. The DD waiver program implemented cost containment in the last half of FY11 and lowered the average cost per client from \$85.3 thousand to \$73.9 thousand for FY12. The DD

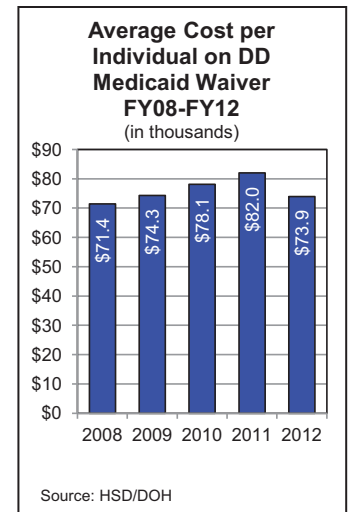
waiver program's cost-containment strategy included establishing a new resource allocation method, conducting rate studies, and implementing the supports intensity scale (SIS), a norm-referenced tool for assessing and planning support needs for adults with intellectual and developmental disabilities.

As a result of a projected deficit due to a decrease in the federal medical assistance percentage (FMAP) match rate, the DD waiver program reduced DD provider rates by 5 percent and capped clients' individual service plan (ISP) budgets in the second half of FY11. The increase in costs, combined with this decrease in the FMAP for Medicaid programs, precipitated the significant restructuring of the DD waiver program. Restructuring began in FY11 and will continue through FY16.

The 2010 LFC program evaluation of the Developmental Disabilities Support Program found spending levels for the existing DD waiver program were unsustainable. The program lacked a needs-based assessment tool and a utilization review process to ensure participants receive the right care at the right time. The waiting list considerably outpaced allocations, causing individuals to wait eight years or more to receive waiver services. Increased oversight and improved cost management were necessary to maintain and expand the program. New Mexico ranked seventh among the states for the highest average cost per client. (American Association on Intellectual and Developmental Disabilities, 2008).

DD Waiver Restructuring. The DOH submitted a new DD waiver renewal application that received approval by the Centers for Medicare and Medicaid Services (CMS) effective July 2011 for a five-year period. The goals of the new structure are to develop a sustainable, cost-effective system; increase and promote independence of persons served and decrease dependence on paid supports; use an assessment tool that identifies individual support needs; develop and implement a resource allocation model based on individual support needs; maximize resources in an equitable manner; improve the management of administrative and direct services costs; and move more individuals off the waiting list and into DD waiver services.

However, the new DD waiver renewal proposed by the DOH provoked opposition by providers concerned with rate reductions and changes in client mix and by clients concerned about the application of the supports intensity scale (SIS) assessment tool and the impact on their individual supports and budget. Other concerns include questions regarding due process to appeal, access to fair hearings, and service and support levels eligible for reimbursement. These issues merit further dialogue among clients, providers, the Legislature, advocates, and the department to assure a consensus is reached that assures good outcomes under the DD waiver, as well as assuring the program is fiscally sustainable, while maximizing the number of clients served and prioritizing services for the most vulnerable.



History of Disengagement from Jackson Plan of Action	
2011	0
2010	5
2009	4
2008	1
2007	0
2006	0
2005	1
2004	0
2003	1
2002	0
2001	3
2000	18
1998-1999	10
TOTAL	43 of 55 outcomes

Source: DOH

DOH Facilities Management Program:

- Fort Bayard Medical Center (FBMC)
- New Mexico Behavioral Health Institute (NMBHI)
- New Mexico Rehabilitation Center (NMRC)
- New Mexico State Veterans' Home (NMSVH)
- Sequoyah Adolescent Treatment Center (SATC)
- Turquoise Lodge (TL)
- Los Lunas Community Program (LLCP)

Jackson Lawsuit. The Jackson lawsuit, filed in 1987, involves the states' obligation to provide services to DD clients in an integrated setting, as opposed to a state facility. The department was ordered by the court to complete a plan of action and other items to ensure compliance with the findings of the court. The DOH reports the program continues to address the requirements of the plan of action and other items to move toward full compliance with the court orders. However, a hearing was held in October 2012 indicating the DOH was substantially noncompliant with the disengagement activities and failing to provide Jackson class members with adequate health care, a reasonably safe environment, and supported employment services. The court indicated the DOH had made progress in several areas and could endeavor for disengagement perhaps within FY14 or FY15. In FY11 and FY12, the Developmental Disabilities Support Program deployed staff from other job duties to the Jackson settlement agreements. But the department reports this restricts the program's ability to fill vacancies and address other critical functions.

DOH Facilities Management. The DOH operates six facilities and an in-patient program. The DOH made an effort to increase revenues from sources other than the general fund, and with the exception of Fort Bayard Medical Center (FBMC) and New Mexico Rehabilitation Center (NMRC), the facilities finished FY12 within budget. The deficit at the FBMC and the NMRC was offset by collections from other facilities and was largely caused by the delayed collection of Medicare and Medicaid reimbursements and shortfalls in third-party payment. The FBMC moved into a new facility financed by Grant County in FY11, and the DOH began paying \$4 million yearly in debt service beginning in FY12.

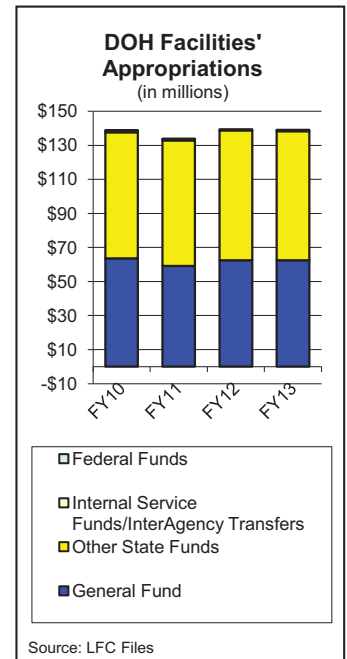
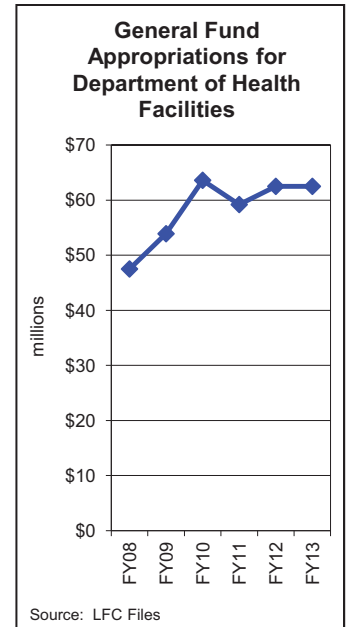
The general fund support for the Facilities Management Program has grown from FY08 through FY13. The program must find other sources of revenue and implement cost-containment measures. The 2010 LFC program evaluation of facilities management noted personnel assignments are not tied to the number of patients in each facility. The average daily occupancy at the end of FY12 was 70 percent. The occupancy rate ranged from a high of 95 percent at the Behavioral Health Institute's Adult Psychiatric Unit to a low of 20 percent at the New Mexico Rehabilitation Center's Medical Rehabilitation Unit. The LFC program evaluation report recommended reviewing workload requirements and establishing policies to reduce staffing when the number of patients is below capacity.

Despite less than optimum occupancy, the Facilities Management Program also has considerable overtime costs, particularly at the Los Lunas Community Program (LLCP). Total overtime for the Facilities Management Program was \$9.5 million in FY12; \$1.8 million was attributed to the LLCP. The overtime accounts for 11 percent of the LLCP's personal services and employee benefits costs. Budgeted overtime at the LLCP, with 347 authorized FTE, is the same as that of the New Mexico Behavioral Health Institute with more than 1,000 FTE.

The 2010 LFC program evaluation found the Office of Facilities Management was not taking “advantage of central solicitation for goods and services common to all facilities.” Cost reporting, oxygen service and supply, laboratory services, billing consultants, equipment maintenance and monitoring, and biohazard waste removal were suggested for consideration for central procurement. To date, the program has made little effort to implement this recommendation. The DOH notes the Facilities Management Program faces major challenges, including the recruitment and retention of qualified health professionals; high supply costs for pharmaceuticals, equipment, disposable supplies, fuel, utilities and food; and the costs of the physical plants, including maintaining aging buildings and the high cost of the lease at Fort Bayard Medical Center.

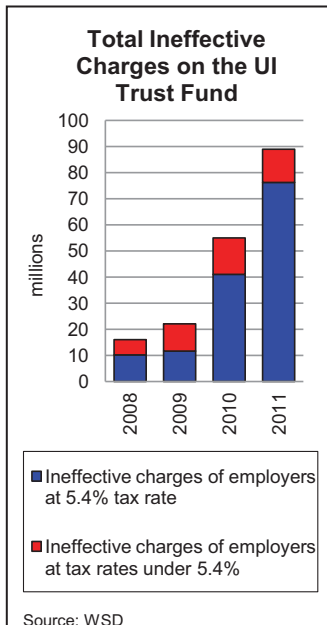
Public Health. The DOH reports, in FY12, New Mexico spent approximately \$90 per person for public health, of which 41 percent came from federal funds. According to the Trust for America’s Health, New Mexico ranked 13th in per capita spending on public health. The Public Health Program (PHP) must continue to increase its Medicaid collections to offset any potential loss of federal revenues and grants. The Public Health Program spends \$14.4 million on contracts with primary care providers, of which a substantial amount is spent on undocumented individuals living in the state. The issue of caring for undocumented persons is not addressed under federal health reform and will continue to put pressure on the public health budget. Other challenges for the program include rising medication and supply costs, including the cost of contraceptives; responding to regulation changes, including those for clinical laboratories; and responding to changes in the federal vaccination schedule for children.

The 2012 LFC program evaluation, *Cost Effectiveness of Public Health Offices*, recommended modification of the Public Health Act to accurately reflect state and county financial responsibility for local public health facilities; developing AGA performance measures for clinical services; refinement of the PHP budget reporting system to inform management within local public health offices; completion of PHP national accreditation; requiring measurable health data in PHP’s contracts to gauge the contracts’ effectiveness in advancing DOH strategic priorities; and replicating in primary care clinics the federal Health Resources and Services Administration (HRSA) reporting requirements and performance measures. Implementation of these recommendations would enhance the quality and cost-effectiveness of New Mexico’s system of public health.



UI Employer Contribution Schedule Trigger System	
Reserve Ratio (RR)	Corresponding Schedule
RR > 2.3%	Schedule 0
2.3% > RR > 1.7%	Schedule 1
1.7% > RR > 1.3%	Schedule 2
1.3% > RR > 1.0%	Schedule 3
1.0% > RR > 0.7%	Schedule 4
0.7% > RR > 0.3%	Schedule 5
0.3% > RR	Schedule 6

Source: Section 51-1-11 NMSA 1978



During the Great Recession the federal government stepped in with large and rapid increases in funding for safety net programs and social services for the state's most vulnerable citizens. These funds played an important role as state funds declined. As the nation embarks on the road to economic recovery, states face decreases and uncertainty in federal funding. New Mexico's safety nets and services for those most vulnerable face financial and administrative challenges.

Unemployment. New Mexico lost 12.4 thousand jobs, or 1.5 percent, between August 2011 and August 2012. Nonetheless, New Mexico's unemployment rate has dropped, since its peak of 8.5 percent in June and July 2010, to 6.5 percent in August 2012.

Unemployment Insurance Trust Fund. The unemployment insurance (UI) trust fund continues to face insolvency. The UI Advisory Council convened by the Workforce Solutions Department (WSD) is charged with examining reforms to the unemployment insurance system, including implementing a floor and ceiling mechanism, revamping the employer contribution schedule matrix, and setting a target fund balance. The council has met six times and discussed these issues and several regulatory changes that affect the benefit side of the UI system, including expanding work search and suitable work requirements and modifying partial benefits. These proposals aim to reduce the need for tax increases, improve fund solvency, and bring integrity to the UI system.

The current UI law, Section 51-1-11 NMSA 1978, dictates a shift to schedule 2 in 2013. For 2014, the schedule trigger in statute would determine a new employer contribution schedule. At present, the WSD projects schedule 6 would likely be triggered; a comparison of schedule 2 and schedule 6 in 2013 indicates an increase of approximately \$140 million in employer contributions is possible.

Fund balance projections for the first quarter of 2013 suggest a transfer from the general fund or a short-term financing mechanism also might be necessary to avoid cash-flow problems. The January 2012 UI fund balance projection over-forecasted the June 30, 2012, balance by \$11.1 million. As of the end of September 2012, the WSD had not released updated fund projections.

Ineffective Charges. Ineffective charges occur when an employer contributes less to the UI fund than the unemployment claims paid out on the employer's behalf. In 2011, 3,800 employer accounts, 12.1 percent of all employer accounts, accounted for 85.6 percent of all the ineffective charges. These employers were also responsible for 50 percent, or \$127 million, of all the benefits paid in 2011. The majority of employer accounts with ineffective charges are taxed at the maximum 5.4 percent, even at the lowest tax schedule, zero.

Under the current employer contribution matrix, increasing from a lower employer contribution schedule to a higher schedule does not

change the tax rate for the employers that rely most heavily on the fund, those with ineffective charges. Employers who pay the 5.4 percent tax rate do not have an incentive to remedy their poor experience rating. These employers are in effect subsidized by employers with better experience ratings, i.e. those whose contributions exceed their benefit charges. The UI Advisory Council examined mechanisms in other states to place a surcharge on employers with ineffective charges.

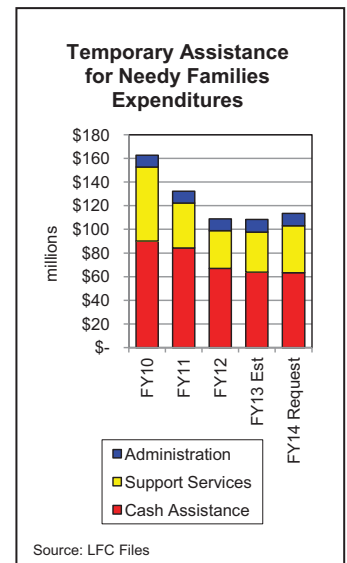
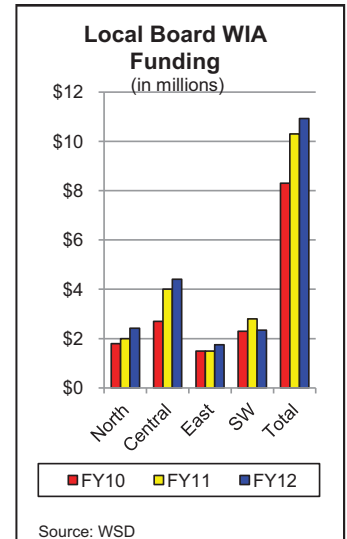
Workforce Development. Although New Mexico's unemployment rate declined, employers report shortages of qualified New Mexicans in key areas, especially skilled jobs. The shortage of qualified workers is expected to get worse. Furthermore, the WSD reports New Mexico currently has about 157 thousand individuals with a bachelor's degree or higher, well below the 177 thousand required for future workforce needs, according to the *State of New Mexico Workforce Report 2012*.

Key workforce development programs include federal Workforce Investment Act (WIA) programs administered by the local workforce boards under the WSD, the administrative entity for more than \$12.6 million of WIA funds in FY12, and Temporary Assistance for Needy Families (TANF) at the Human Services Department (HSD), with \$32 million in FY12 for employment-related support. Additional federal and state money flows to the public schools and higher education institutions for vocational and skill specific training.

Targeted populations tend to differ for the various programs, with TANF focused on entry-level employment for low-income families. The WSD and the local workforce boards have a broader mandate to help meet the needs of the unemployed as well as improve the skills of the current workforce to meet employers' evolving needs. Research shows that many individuals, particularly TANF clients, often face barriers to employment, including a lack of education, undeveloped soft "people" skills, lack of childcare, transportation difficulties, and physical and mental health issues. The success of clients with multiple barriers to employment often requires intensive case management and support services.

Protecting Vulnerable Populations. New Mexico has a variety of comprehensive, coordinated services that focus on vulnerable populations experiencing disparities due to lack of resources and increased exposure to risk. These services protect children and the elderly, assist in child support enforcement, and help victims of domestic violence.

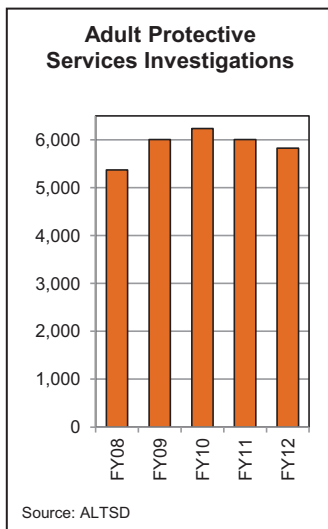
Temporary Assistance for Needy Families. Under the TANF program, states receive a federal block grant to provide cash assistance and work support programs to low-income families. States have broad discretion to meet program goals, and states are required to report on the work participation rates of TANF clients. Failure to meet federally established work rates might trigger penalties.



Social Services

Vacancy Rates for Child Protective Services and Juvenile Justice			
	FY13 OpBud vacancy rate	FY13 August vacancy rate	FY14 req. vacancy rate
Protective Services	5.5%	16.0%	7.9%
Juvenile Justice	6.0%	19.3%	6.5%

Source: CYFD and LFC Files



The caseload in the TANF program saw precipitous increases during the economic recession, peaking at 21,514 cases (54,802 recipients) in December 2010, a 57 percent increase over two years. However, since the beginning of 2011, the number of cases has slowly declined, falling to 16,998 (41,470 recipients) in July 2012, or about 26 percent. The HSD speculates the enrollment decline is due to the employment picture improving and a 15 percent reduction in benefits beginning in FY11, as well as changes in program eligibility criteria. The HSD projects 17,228 cases in FY14. As a result of declining enrollment, the HSD is projecting a slightly lower budget for FY14.

Child Protective Services. The Children, Youth and Families Department (CYFD) struggles to recruit and maintain a sufficient case management workforce. In FY12, the average caseload for permanency planning workers was 17.3 children per worker. Permanency planning workers handle cases where investigations have determined a need for the department to file for ongoing custody of a child. These caseworkers' primary duty is to work with the children and parents toward reunification or another permanency goal, such as adoption or permanent guardianship.

For protective services caseworkers, national benchmarks indicate the caseload should average 12-15 children per worker. The average vacancy rate for protective services workers for FY12 was 16 percent. Turnover for basic and operational caseworkers in Protective Services is very high. The turnover rate for workers who work directly with abused children and state central intake workers, who receive the reports of child abuse and neglect, was 20 percent in FY12.

In FY12, Child Protective Services received a total of 33,253 reports of child abuse; 51.4 percent were accepted and investigated. Accepted reports of child abuse dropped in FY12 by 3.1 percent compared with FY11. Between January 2012 and mid-August 2012, the CYFD received 17 reports of fatalities of children under the age of four and 131 reports of serious injuries to children under 13 years of age. This only reflects injuries and fatalities reported to the department. As of the close of FY12, the backlog of pending investigations grew to 4,362. Timely investigations by social workers are critical to the successful intervention of child abuse and neglect. The department is hiring licensed social workers on a continuous basis due to high turnover, but it has not indicated it will make salary scale adjustments for social workers.

Adult Protective Services. The Aging and Long-Term Services Department's (ALTSD's) Adult Protective Services (APS) program provides services mandated by state law on behalf of persons age 18 years or older, including investigations of abuse, neglect, or exploitation (ANE); protective placement; caregiver services; and legal services, such as filing for guardianship or conservatorship.

The APS reports the number of ANE investigations for FY12 was 5,824, up 456 cases, or 8.5 percent, from FY08, but down 3 percent

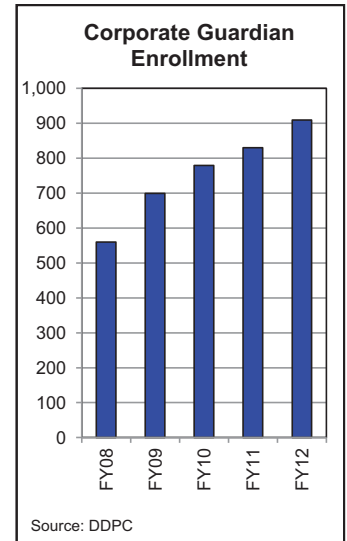
from FY11. In FY12, the APS received 211 fewer ANE reports from the public than in FY11 and even fewer met the criteria for investigation when compared with the three previous years. The ALTSD reports the lower number of referrals received might be related in part to vacancies in the APS intake unit during the first half of the fiscal year. The number of cases requiring a response within 24 hours also decreased to 11.7 percent, down 3 percent from FY11. With the critical nature of adult protective services, it is important the APS fill its 14.5 percent of field staff vacancies to prevent further abuse, neglect, and exploitation.

Adult Guardianship. The Developmental Disabilities Planning Council (DDPC) administers the Guardianship Program wherein a corporate guardian is appointed by the state to assist individuals with managing legal and personal affairs. Currently, 909 individuals are receiving guardianship services from the state, and the need for state corporate guardianship services for aging persons with developmental disabilities is increasing faster than the growth in revenues to support it. The average rate of annual growth in the corporate guardianship program over the past five fiscal years has been 12.5 percent. Requests for corporate guardianships come from the APS, court-ordered placements, clients receiving services for developmental disabilities, and mental health referrals.

The Guardianship Program has received an influx of general fund and Medicaid revenues for the past three years, as well as nonreverting language allowing the program to spend the carryover revenue. Nonetheless, the FY13 increased general fund appropriation of \$3.76 million still resulted in a waiting list of at least 20 cases for emergency guardianship services. The DDPC is prioritizing serving emergency cases and estimates the need to fund 54 additional slots in FY13 and FY14.

Juvenile Justice. The CYFD is calling for additional secure juvenile facilities to address the growing facility population instead of requesting additional resources for and focusing efforts on keeping youth out of secure facilities. The CYFD has spent more than \$3.1 million on training contracts with the Missouri Youth Services Institute and the department is in its fifth year of implementing the Cambiar New Mexico rehabilitative model at the juvenile facilities; however, rising recommitments and a growing facility population indicate implementation issues and inadequate use of front-end services.

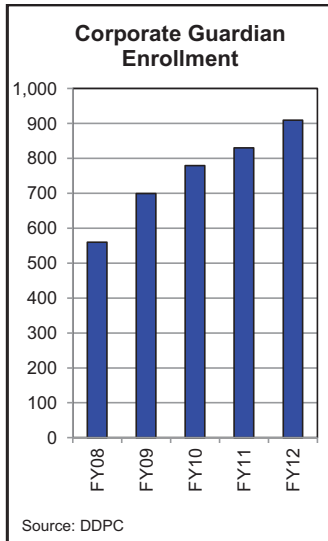
The department reports the Cambiar model is beginning to take root as evidenced by the decrease in assaults at the facilities. Furthermore, multi-disciplinary teams, which include education, security, and behavioral health staff, assist clients through intensive and ongoing positive peer culture group interactions. However, high turnover and vacancy rates of youth care specialists continue to adversely impact rehabilitation efforts. According to department performance measures, recommitments to juvenile facilities have been on the rise since FY10.



Missouri Youth Services Institute Contracts with CYFD (in thousands)	
FY07	\$30.0
FY08	\$172.9
FY09	\$550.0
FY10	\$1,000.0
FY11	\$750.0
FY12	\$432.0
FY13	\$250.0
FY14 Req.	\$288.0
TOTAL	\$3,472.9

Source: CYFD

Social Services



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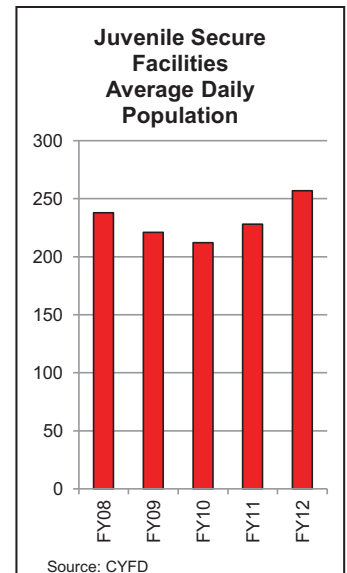
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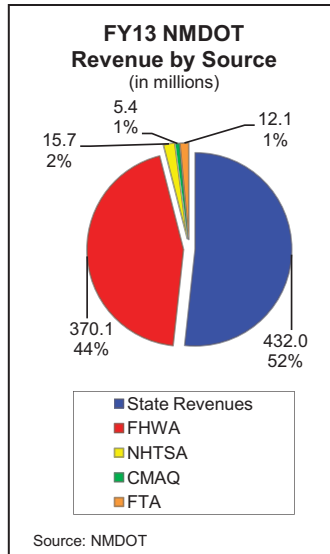
In FY12, the average population at secure juvenile justice facilities increased by 12.7 percent over FY11. The juvenile secure facilities operated at, or near, full capacity in FY12. The current bed capacity for the juvenile facilities is 264. The CYFD projects the population in the secure facilities will grow by 38 youth over the next five years, however, the department has not provided the basis for the projected increase.

The CYFD is working towards re-opening the juvenile secure facility formerly known as Camp Sierra Blanca in Fort Stanton to provide 24 additional beds in FY14. In addition, the department's number one capital outlay priority in the 2013 legislative session is for demolition and plan and design funding for a 54-bed juvenile facility at the old rehabilitation hospital in Roswell. Once the secure facility is built in Roswell, the CYFD proposes to transition the facility in Fort Stanton to a reintegration center.

Although regional facilities are consistent with the Cambiar New Mexico model, alternative solutions are available to address regionalization and facility capacity, including contracting with county detention facilities for additional beds, developing private-public partnerships for facility construction, and prioritizing funding for front-end services, which could leverage federal and foundation funding.

According to the National Conference of State Legislatures, states are addressing the causes of youth violence in more comprehensive ways with front-end programs focusing on classroom attendance, job opportunities, mentoring, and access to mental health services. The CYFD provides front-end services, such as pre-sentencing alternatives and social services, through contracts with local governments and private organizations. In FY13 these contracts totaled \$4.9 million, compared with more than \$44.8 million budgeted for the secure facilities.





Key Components of Federal Transportation Legislation (MAP-21):

- Eliminates or consolidates existing maintenance, highway and bridge programs with a majority of funding going to a new National Highway Performance Program (\$43.7 billion)
- Eliminates or consolidates Transportation Enhancements, Safe Routes to Schools and Recreational Trails programs and establishes a new Transportation Alternatives Program (\$1.6 billion)
- Maintains Surface Transportation Program (\$20.1 billion)
- Maintains Highway Safety Improvement Program (\$4.8 billion)
- Maintains Metropolitan Planning Program (\$626 million)
- Maintains Congestion Mitigation and Air Quality Program (\$4.4 billion)

The New Mexico Department of Transportation (NMDOT) continues to confront nearly a half billion dollars in road, highway, and bridge reconstruction and maintenance needs with reduced federal and state funding available. Significant, long-term debt obligations accrued through the construction of new highway projects and the completion of the Rail Runner complicate matters further. As a result, the department has assumed a tentative position on major investment projects critical to the economic welfare of the state and has, instead, emphasized routine maintenance, repair, and reconstruction – much of which has been deferred for increasingly longer periods because of revenue shortfalls.

Federal and State Transportation Funding. Federal transportation legislation – now called Moving Ahead for Progress in the 21st Century (MAP 21) – was reauthorized on June 29, 2012, for federal fiscal years (FFY) 2013 and 2014. It maintains federal funding at current levels with a small offset for inflation. Funding of approximately \$105 billion was authorized in the legislation, with \$18.8 billion transferred to the highway trust fund (HTF) to ensure the solvency of the HTF through the authorized fiscal years. As a result, New Mexico will receive approximately \$355.7 million in FFY13 and \$358.8 million in FFY14. By federal statute, all of this funding will be directed to the completion of reconstruction projects contained within the Statewide Transportation Improvement Program (STIP). MAP-21 also requires detailed performance measures designed to increase accountability.

Highway Trust Fund (HTF). Established by Congress in 1956, the HTF is the principal mechanism for funding federal highway programs. Current estimates from the Congressional Budget Office (CBO) project the HTF will face a new deficit in FFY15, and Congress has not passed legislation addressing the potential shortfall. However, House Bill 2190 funds a study of the operational feasibility of a road user assessment fee and, contingent on funding, authorizes a limited project for electric vehicles.

Budget Cuts through Sequestration. Sequestration is a process of automatic, largely across-the-board spending reductions to balance the federal budget and reduce the deficit. Some federal programs are exempt; transportation has a partial exemption. According to preliminary estimates released by the Office of Management and Budget (OMB), funding for highways, transit and rail programs vulnerable to sequestration could be cut by approximately \$1.5 billion, or 8.5 percent, in FFY3 should sequestration occur. The largest decrease would come from a \$471 million reduction to the highway trust fund outlined in MAP-21. An analysis of transportation programs by the Federal Funds Information for States (FFIS) suggests New Mexico would be minimally affected by sequestration.

Inadequacy of State Road Fund. Based on current projections, total state road fund revenues for FY12 and FY13 are expected to be somewhat lower than anticipated in January 2012. Future growth will

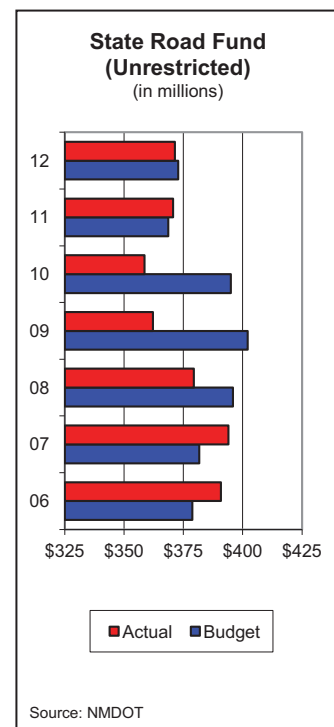
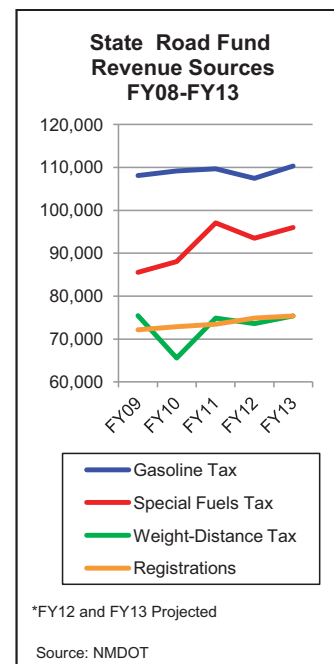
continue to be constrained because the primary source of revenue – gasoline and special fuels taxes and vehicle registration – are based primarily on a per-gallon or per-vehicle fee, rather than the value of the sale. While the weight-distance fee, a tax on commercial trucking based on the weight of the load and the self-reported number of miles traveled in the state, is an attempt to tie revenues directly to the cost of maintaining the highways, that fee is only a small part of the revenues obtained by the state. Legislative proposals for additional vehicle miles travelled (VMT) fees – one potential solution to the funding problem – have thus far not gained significant political traction at the national or state level, although at least 18 states have either completed or pursued VMT pilot projects. Others are pursuing variable rate and indexed fuel assessments to more accurately link transportation revenue collection to actual infrastructure needs.

The National Conference of State Legislatures (NCSL) recently completed a detailed study on state policy approaches to revenue collection – including a discussion of advantages and disadvantages to each approach – “*On the Move: State Strategies for 21st Century Transportation Solutions.*”

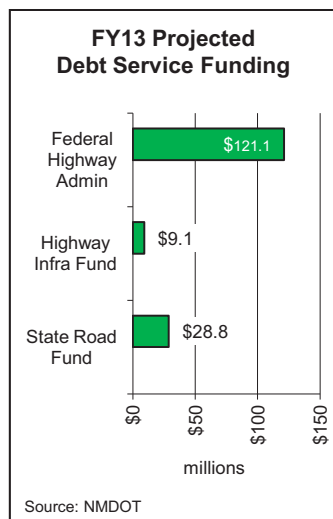
NMDOT officials state New Mexico currently has at least \$1.5 billion in unfunded highway construction needs across the state. Three large “mega-projects” costing approximately \$245 million are in the Albuquerque metro region: the intersection of Interstate 25 and Paseo del Norte; the intersection of Interstate 40 and Embudo Channel; and the intersection of Interstate 25 and Rio Bravo to Broadway. Department officials provided a list of 19 Governor Richardson’s Investment Partnership (GRIP) projects totaling \$390.6 million that have been deferred given the extent of current debt obligations. Another \$341.1 million is required for priority projects to improve main streets across New Mexico and \$200 million is required for significant unfunded interchange needs along Interstate 10, Interstate 25, and Interstate 40.

Transportation Bond Debt Constraints and Outlook. As of July 2012, the total outstanding debt for transportation infrastructure projects across the state for FY13-FY27 totaled \$2.3 billion – including principal, interest, and fees. Of this amount, \$1.9 billion is related to GRIP and the remainder for projects pursued prior to GRIP. Of the \$1.9 billion, \$558.3 million is related the Rail Runner.

Of the \$2.3 billion debt, the state is required to pay \$686.2 million from state road fund sources between FY13 and FY27. Of particular concern are the “cliff” years of FY25 and FY26. The state will be required to pay approximately \$113 million each of those fiscal year compared with roughly \$30 million per year from FY13-FY23 and \$56 million in FY24. Efforts by department officials to address the cliff years have been hindered by fees of approximately \$147 million currently required to exit variable rate “swap” bonds. Much of this out-year spending results from the state pursuing the construction of the Rail Runner without federal environmental approval.



Transportation



Debt Swap Controversy

- In 2008, the NMDOT through the New Mexico Finance Authority (NMFA) entered into \$240 million in variable rate "swap" bond arrangements with Royal Bank of Canada, Goldman Sachs, Deutsche Bank, JP Morgan, and UBS.
- Of that, \$200 million is connected to the London Inter-Bank Offering Rate (LIBOR) index.
- In June 2012, Barclays Bank agreed to pay \$450 million in fines to settle charges that it had rigged LIBOR rates.
- Several other banks are under investigation by European and U.S. agencies for LIBOR manipulation – including JP Morgan and UBS.
- In October, the State Transportation Commission (STC) accepted a proposal from UBS and JP Morgan to settle litigation related to the manipulation of LIBOR rates and damages from the GRIP swap agreements for \$1.1 million.

Statewide Transportation Improvement Program (STIP). The STIP is a four-year, federally mandated, multi-modal transportation plan and is created through a lengthy consultation process that includes NMDOT officials and engineers, local and regional governments, metropolitan and regional planning organizations (MPOs and RPOs), other state agencies, and the public. The NMDOT identifies projects assigned the highest priority through the STIP consultation process and then, after detailed discussions with the Federal Highway Administration (FHWA), establishes which projects should be funded. The state must provide a funding match to projects included in the STIP that varies by the type of project. Amendments to the STIP are presented at the State Transportation Commission (STC) for approval but can also be changed by administrative action at the department.

The current STIP, inclusive of three amendments passed by the STC and approved by the FHWA, contains a total of 678 projects with costs of approximately \$1.8 billion. This funding is entirely dedicated to the maintenance, repair, and reconstruction of existing roads and bridges.

The process by which projects are included in the STIP remains somewhat opaque, with political and technical determinations for funding action being blurred. As an example, there seems to be substantial regional interest in funding projects on U.S. 491 but the projects have not passed the political or technical threshold to be included in the project list. Similarly, projects that were included in GRIP but have now been delayed – those along U.S. 54 as a specific example – were not included in the current STIP.

Highway Maintenance Program. Routine maintenance consists of intensive and ongoing activities designed to preserve the state's highways, roads, and bridges. This includes the resurfacing technique called chip-seal, sign and equipment replacement and repair, drainage and guardrail improvement, mowing and litter removal, and other critical activities that ensure the safety of the public. As a result of provisions included in MAP-21 legislation, the department is transitioning to new performance measures that provide more accurate data on maintenance and preservation efforts.

In general, the department is facing serious obstacles related to highway maintenance. Increased maintenance costs combined with revenue shortfalls has forced officials to decide whether to spend limited funds on good roads so they do not become bad roads or bad roads so they do not become failed roads.

Roads. Current estimates from the NMDOT for FY13 project a routine maintenance gap of approximately \$163.8 million, with the most significant shortfalls coming in pavement preservation activities such as crack seal and overlay, maintenance such as patching and pothole repair, and chip seal. Heavy equipment replacement has also been delayed for several years, and because over 60 percent of the fleet is considered to be in poor condition, procurement of new equipment will have to be addressed in the immediate future.

Bridges. The NMDOT owns approximately 3,000 bridges in the state; these include both span bridges and buried structures such as concrete block culverts. Recent analysis by NMDOT engineers indicates at least 160 span bridges, or 10 percent of the total, are considered structurally deficient. The estimated project cost to replace the bridges is \$250 million.

Rest Areas. The department abandoned tentative plans to permanently close 13 rest areas in the state and has instead targeted \$1.5 million in its FY14 budget request to revitalize facilities not compliant with the American with Disabilities Act (ADA) or otherwise in need of improvement. The department has 31 rest areas.

Public Transportation Initiatives.

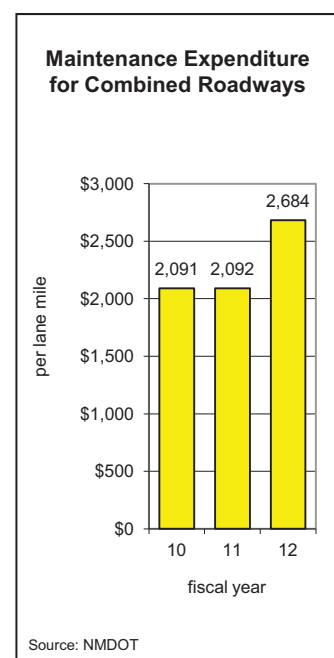
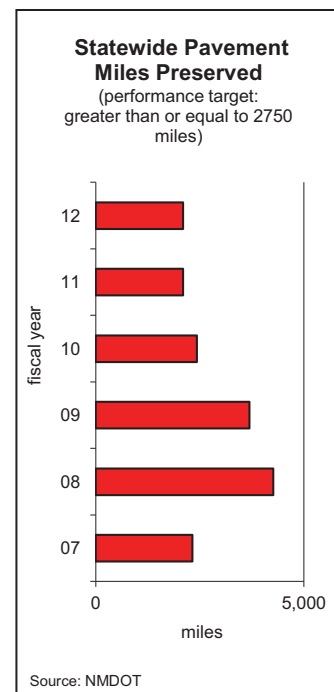
Commuter Rail. The most recent unaudited financial report from the Rio Metro Regional Transit projects a budget surplus of \$3.6 million for the Rail Runner at the close of FY12. The balance will be rolled into revenue for FY13. Current budget projections for FY13 indicate a budget surplus of approximately \$1.7 million. However, the projected surplus drops to \$10 thousand in FY14.

For FY13 and beyond, federal Congestion Mitigation and Air Quality funding will no longer be available to Rio Metro, a loss of approximately \$5.4 million. The loss will be offset by \$6.4 million in federal 5307 funds received in FY13, increasing incrementally to \$7.2 million in FY17. Furthermore, the Rail Runner is also now eligible for federal 5337 “state of good repair” funding beginning in FY15, which is specifically dedicated to repairing and upgrading rail and transit systems. Rio Metro expects to receive \$2 million in FY15 and \$5.5 million in FY16 and FY17.

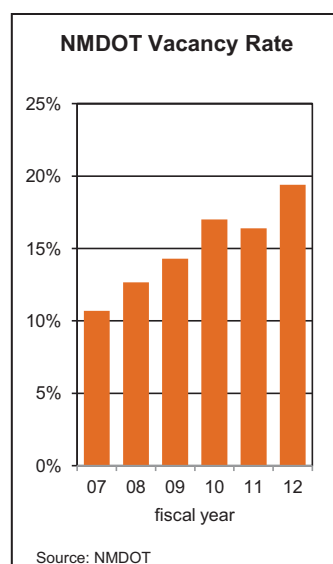
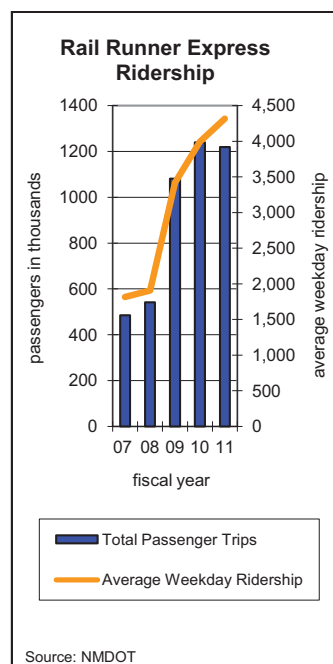
In short, previous concerns about immediate operational shortfalls at Rio Metro were premature, but innovative policies to ensure financial sustainability will have to be developed or adopted in the very near future. Of particular concern, Rio Metro still has not developed a plan to address major capital and maintenance needs and proposed budgets do not include funds dedicated to rolling stock depreciation and replacement, bridge repair and replacement, stations and parking improvement, and other priorities. According to Rio Metro, current unfunded needs total approximately \$29.5 million in FY13 and FY14. MAP-21 requires organizations like Rio Metro to outline and implement detailed plans on capital asset management before receiving federal funding.

Total ridership for the Rail Runner in FY12 was 1.19 million, a slight decline when compared with 1.21 million in FY11. Revenues remained relatively flat.

Park and Ride. New Mexico Park and Ride is an inter-city service designed to mitigate traffic on the state’s highways and provide cost-effective alternatives to the state’s commuters. The NMDOT manages this program. Ridership in FY12 totaled 310.1 thousand, an increase



Transportation



of 17.6 thousand, or 6 percent, over FY11. The current performance target is 250 thousand riders per fiscal year.

Local Initiatives. In 2003, the Legislature authorized the creation of regional transit districts (RTDs) with the purpose of providing an alternative form of transportation for individuals unable or unwilling to use personal vehicles for daily activities. The majority of services provided by the RTDs link regional areas difficult to reach by low-income passengers. The four certified RTDs in New Mexico are: the North Central RTD (NCRTD), the Rio Metro RTD, the Southwest RTD (SWRTD), and the South Central RTD (SCRTD). NCRTD, Rio Metro, and SCRTD receive both federal and state funds for operation; NCRTD and Rio Metro also receive gross receipt taxes, and contribute to the operating budget of the Rail Runner. The SCRTD is not operational because it has not completed a comprehensive service plan, including identifying local funds to obtain federal funding. The SWRTD is operational but on a smaller scale than NCRTD and Rio Metro. Transit ridership for the Albuquerque metro area totaled 1.4 million in FY11; in the same period, NCRTD ridership totaled 431.9 thousand for all funded routes.

The NCRTD was cited for several material weaknesses related to its finances in the FY11 audit. These weaknesses occurred under previous NCRTD management, and current management states action is being taken to eliminate the issues. Rio Metro was not cited for any material weaknesses or deficiencies in its FY11 audit.

Although the RTDs possess their own boards and management structures, NMDOT exercises significant oversight over these entities to ensure effective and efficient expenditures of increasingly constrained federal funding.

Recruitment and Retention Plans. The NMDOT is currently facing significant problems with recruitment and retention, with 467 vacancies across the department as of September 2012 – nearly a 19 percent vacancy rate. The source of the problem can be attributed to a number of issues – slow applicant processing and interviews in certain districts, promotions of individuals within the department that simply lead to more openings, and a lack of salary competitiveness compared with the private sector. The department believes these vacancies seriously impact the work that can be performed in the field. The department continues to work with the State Personnel Office (SPO) to identify mechanisms to expedite hiring.

Given the large amount of vacancy savings at the department – \$18 million in FY12 and at least \$13 million in FY13 – the department should reallocate funding from personal services and employee benefits to road, highway, and bridge maintenance.

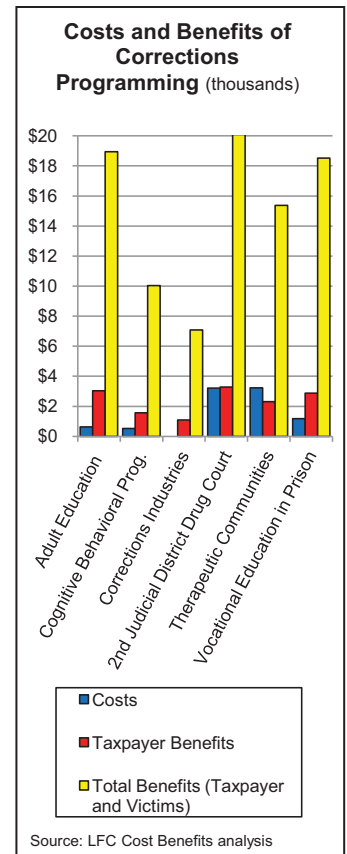
Based on current projections, the state will meet or exceed current, prison capacity within 5 years. Issues related to exceeding prison capacity and a growing prison population could be slowed or reversed by reducing recidivism. Directing resources at reducing recidivism in an evidence-based way will ensure that recidivism program dollars are spent wisely. Currently the state does not systematically evaluate the costs and benefits of corrections programming to the taxpayer or to victims. Comparing programming has helped other states' policymakers direct resources into proven areas and save money. For example, the state of Washington evaluates prison programs and reports reduced crime rates and incarceration rates, saving hundreds of millions of dollars.

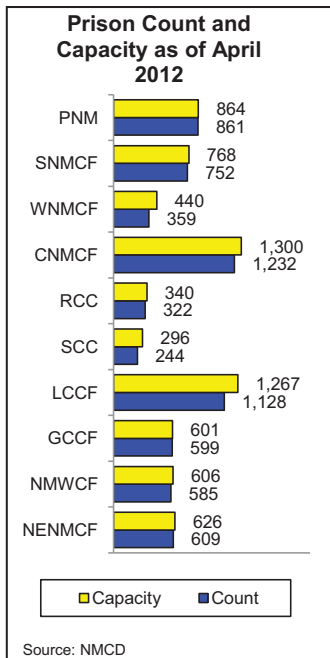
Improved Prison Program Assessment. New Mexico's public safety, corrections, and criminal justice systems have been evaluating a cost-benefit-analysis model with the potential to evaluate recidivism reduction programming in an accurate and cost-effective manner. This model, known as the Results First Initiative, developed by the PEW Center on the States, is being used to estimate the current costs of prison programming, while quantifying possible savings generated in the future. A high-quality, data-intensive version of the initiative was used in the June 2012 LFC evaluation of the New Mexico Corrections Department (NMCD) to inform policymakers about the costs and benefits of programming. For example, the June 2012 LFC evaluation found that for every dollar spent on adult education, taxpayer and victim benefits are estimated at \$30.22. In comparison, the benefits for every dollar spent on therapeutic communities (TC) are predicted to be \$4.77.

This scientifically developed model has already begun to influence budget decisions. Since the LFC evaluation, the department has decided to end TC and is beginning to implement a more rigorously researched Residential Drug Abuse Program used in federal prisons. If the Results First Initiative were continuously implemented, with fidelity, the state will need to dedicate resources to data collection. In addition to the Corrections Department, the Results First Initiative could be expanded into areas such as juvenile justice, the courts, and other government services.

Probation and Parole. Inmates serving parole in prison cost the state roughly \$10 million in FY12. Developing more community-based resources will save money by freeing up beds and could possibly delay construction of another prison. Based on a recent LFC evaluation, 278 inmates in May 2012 were serving their parole in prison. Forty-percent of those serving their parole "in-house" were considered hard-to-place inmates. Many of the hard-to-place inmates are sex offenders with limited resources. More options are needed to ensure hard-to-place offenders do not serve their parole in prison at a greater cost to the state.

High-Risk Offenders. Barriers stand in the way of high-risk-offenders receiving programming that will help them succeed after release.





Much of the provider network in New Mexico does not provide services to high-risk offenders, focusing instead on low-risk offenders. Recent research suggests that focusing programming on low-risk offenders is not the best use of valuable resources. The lack of available services results in many high-risk offenders serving parole in prison and re-offending after release. A better use of resources is to direct services at high-risk offenders, the group that recidivism programming has the greatest impact upon.

Prison Population. The New Mexico Sentencing Commission publishes a 10-year prison population forecast annually. The current operational capacity for male inmates is 6,431. The FY12 male population was 6,125 inmates, down from a peak of 6,174 in FY07 and up from an FY09 low of 5,879. The current operational capacity for female inmates is 668. The FY12 population was 647, down from 713 in FY07 and a recent low of 619 in FY09. The projected population will reach 6,297 for males and 640 for females by FY14. Assuming no changes in the state's recidivism programs and current trends continue, the population is projected to exceed current operational capacity for men sometime in FY16 and will surpass capacity for women in FY17.

Prison Facility Cost. Private prisons housed 2,284 men in FY11. Most of those were classified as level III and did not have a serious medical condition. The total cost per day per male inmate at private facilities was \$80.48 in FY11. The cost to house inmates at public facilities averaged \$108.05 per day. The rate for public facilities is greater for several reasons: Public facilities house all of the security classification IV, V, and VI inmates while private facilities house low-risk inmates; public prisons house terminally ill inmates or inmates with serious medical conditions, including mental illnesses; public prisons carry the costs of transporting prisoners between facilities; and, private prisons typically are larger than public prisons and realize economies of scale.

The department has several opportunities to reduce costs within private contracts. According to the 2012 LFC evaluation, the contract between the NMCD and Lea County for the operation of the Lea County facility reduced staffing requirements by 32 FTE, reducing costs to GEO Group Inc. by \$2 million annually. Geo Group Inc.'s per-diem rates were not renegotiated even though it is now providing fewer services. Additionally, local court orders require the NMCD to diagnose and evaluate (D&E) inmates with less than a year on their sentences. The LFC's evaluation found these inmates could be sent to county jails, which also conduct D&Es, and save the state \$2 million annually. Also, neither the NMCD or the Behavioral Health Purchasing Collaborative (BHPC) have yet to recover more than \$1 million in unspent non-reverting Community Corrections Program funds from Optum-Health, the contracted BHPC provider.

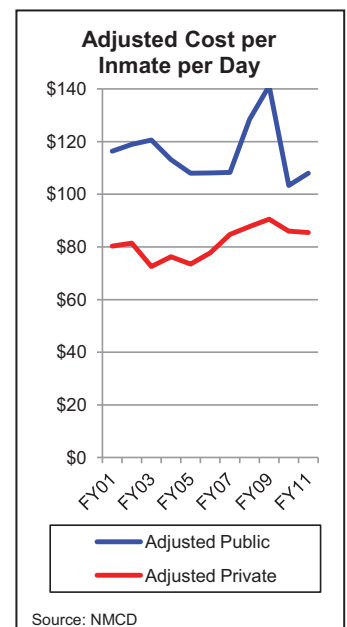
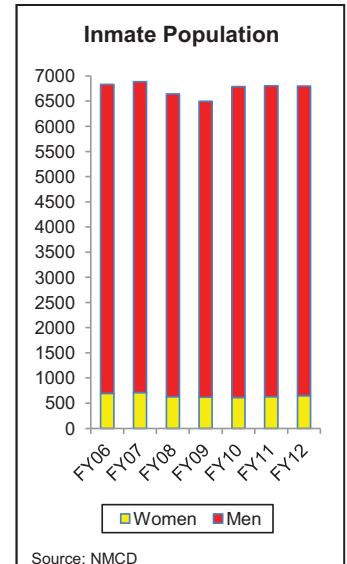
Department of Public Safety Recruitment and Retention. An elevated overall vacancy rate of almost 20 percent in the Department of Public Safety (DPS) might be negatively impacting the safety of the public. Of the 567 authorized commissioned state police (SP) officer

positions, 468 were filled as of April 2012. Likewise, only 20 of 26 authorized Special Investigation Division (SID) agent positions were filled. The Motor Transportation Program (MTP) has 10 vacancies out of 109 officer positions. The MTP has additional vacancies among transportation inspectors, making it difficult for the program to utilize all resources available.

A recent law enforcement salary survey found that department salaries are not competitive with other law enforcement agencies throughout the state. For example, new recruit officer salaries rank ninth in the state behind cities like Farmington which pays its recruits \$20.59 per hour. The State Police, SID, and MTP pay their recruits \$14.80 per hour. Average patrolman salaries for State Police are \$21.36 per hour compared with the Albuquerque Police Department with an average salary to patrolmen of \$25.25 per hour.

Exit interviews conducted by public safety personnel found many officers leave for departments with more competitive salaries. The department's managers' stated frustration is that the DPS spends money training and certifying recruits, who leave soon after certification for departments with competitive compensation. Recruiting and retaining officers in the department is already difficult because of DPS's specific requirement that officers move their families after completing the academy. Compounding this issue, officers are often required to relocate to areas of the state that are less desirable or may not have economic opportunities for spouses. Retirement plans are also not competitive with local law-enforcement, placing additional strain on recruitment and retention.

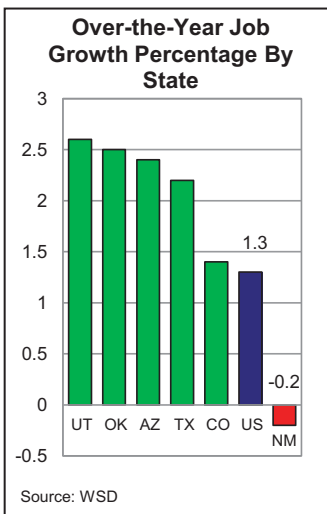
To address recruitment, retention, and vacancy issues, the department in FY13 is conducting two recruit academies rather than one and is reducing the length of the academy for military police veterans. The department has the ability to take further action. First, \$2.5 million, or 19 percent, of the department's personal services and employee benefits budget in FY12 was transferred to other purposes. The department estimates it would cost \$2.9 million to bring officer pay in line with established step formulas. The department could use existing personnel funds to accomplish this. Further, the department's FY14 request could have included an increase in personnel funding to bring officer compensation up to market competitive rates but spending priorities were placed elsewhere.



Economic Development

"A revised tax code, as opposed to the piecemeal tax credit incentives, sends a message to business that New Mexico is open for business, and it levels the playing field for all industries, for all businesses."

- EDD general counsel, LFC hearing, August 2012



Impact of Sequestration on Jobs

- The Bureau of Business and Economic Research (BBER) at the University of New Mexico estimates New Mexico would lose 20 thousand jobs with federal sequestration.
- By comparison, New Mexico lost approximately 53 thousand jobs during the recession.
- New Mexico has no economic development plan to deal with the potential loss of jobs through sequestration.

New Mexico's economic recovery is sputtering, with the state losing jobs year-over-year in FY12. The Economic Development Department (EDD) asserts the most beneficial action would be to revise the state tax code and lower or eliminate some of the corporate taxes. However, the department has not actively engaged with the Taxation and Revenue Department (TRD) to form a detailed recommendation for the Legislature to consider. In addition, due to issues of tax return confidentiality, the TRD cannot share with the EDD taxpayer-level data on use of tax incentives, making a thorough analysis of the efficacy of certain incentives difficult.

In August 2012, the LFC released a report on select tax incentives entitled *Economic Development Department and Taxation and Revenue Department Job Creation Incentives*. The report concluded New Mexico lacks a comprehensive approach for financing and monitoring performance of job creation incentives. The finding was very similar to that of a 2009 LFC brief that showed the state's approach to job creation was fragmented and uncoordinated. One of the primary issues highlighted in both reports is the lack of a comprehensive, consistent application of clawback provisions. Additionally, the total cost per job is high. The average cost per job for combined incentives is an estimated \$31 thousand to attract a job with an average salary of \$43 thousand. The TRD does not routinely review and report the effectiveness of economic development tax credits, and the agency does not have systems in place to conduct a proper analysis.

Job Growth and Loss. While the national economy experienced moderate employment growth of 1.3 percent during fiscal year 2012, New Mexico experienced a job loss of 0.2 percent and was the only state in the immediate region with a reduction in employment. In fact, New Mexico was one of just seven states in the country with a loss, putting it at 46th among the states. The loss amounted to 1,700 jobs. In July, the Workforce Solutions Department (WSD) reported employment increased in seven industries, decreased in five, and remained unchanged in one over the fiscal year. The government sector led job losses with a drop of 5,200 from June 2011 to June 2012. The losses were spread mostly evenly across local, state, and federal government. Professional and business services as well as information and miscellaneous services also saw noteworthy declining employment. Significant growth occurred in educational and health services, leisure and hospitality, mining, and manufacturing.

Unemployment. Despite the lack of growth in jobs, unemployment levels fell slightly in June 2012, reaching 6.5 percent, versus 6.7 percent in May, and were down significantly from the 7.5 percent rate of a year ago. The national unemployment rate remained comparatively high at 8.2 percent.

Statewide Economic Development Programs. State and local tax incentives, grants, and low-interest financing offer businesses and banks the opportunity to reduce risk while encouraging targeted

Economic Development

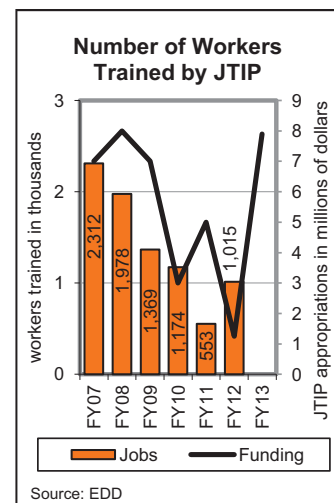
economic development. New Mexico offers more than 20 targeted economic development tax incentives – also referred to as tax expenditures; however, half are rarely used.

Job Training Incentive Program. The JTIP appropriation for 2011 was at its lowest level in years, just \$1.3 million, but in 2012 returned to a near-high of \$7.9 million. The JTIP partially subsidizes training for new employees; it also acts as a business recruitment tool to offset the higher taxation some industries face in New Mexico compared with other states. The number of jobs subsidized grew for the first time in five years, increasing from 553 in FY11 to 1,015 in FY12. Average salaries increased by more than \$10 thousand over the last four years, but as a result, the average cost to fund each job exceeded the FY12 performance target of \$2.5 thousand, reaching \$4.6 thousand. The LFC report on tax incentives noted several concerns relating to the JTIP, including issues with oversight and subsidizing the training of call center workers whose training had already been subsidized at a previous call center company.

Local Economic Development Act. The EDD received no LEDA funding during the 2011 or 2012 sessions. However, some previous expenditures through the LEDA received substantial attention due to the closure of Schott Solar, and the widespread recognition the state had no route to claw back any of the nearly \$16 million in LEDA funds given to that company to locate in New Mexico. The LFC report on tax incentives noted that since 2007, the state has issued more than \$63 million in LEDA grants without safeguards to ensure jobs are created and retained. The Economic Development Department has an internal policy to require clawbacks in future grants, but it remains at the discretion of the cabinet secretary. Nothing in statute requires LEDA funding agreements to obligate the local community to recover funds if a business should close within a given timeframe or fail to meet promised job goals.

State Small Business Credit Initiative. Jointly, the New Mexico Finance Authority (NMFA) and the EDD applied for and received \$13.2 million from the U.S. Department of the Treasury (Small Business Jobs Act) State Small Business Credit Initiative. Approximately one-third of the funds are expected to be deposited in the economic development revolving fund to support new small businesses, and the remainder is expected to leverage an additional \$132 million in private investment by the end of 2016.

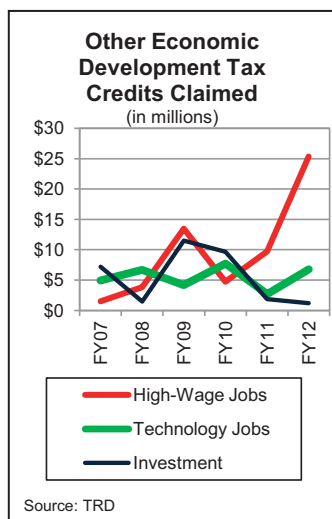
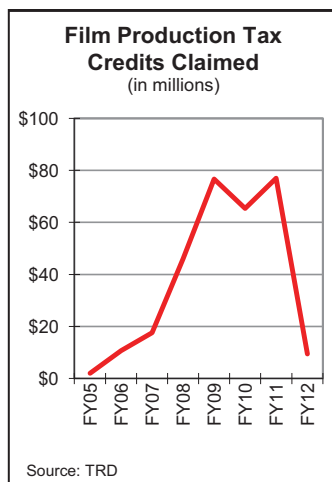
Small Business Development Centers (SBDC). The New Mexico Small Business Development Center network was created by the Legislature in 1989 and has offices in 20 communities throughout the state. These centers provide a wide variety of assistance for business start-ups and expansions, and the offices hosted a combined total of 490 seminars and workshops in FY12 with 4,880 attendees. The SBDC employs 74 people with reported averages of more than 10 years of small business management or ownership experience and nearly eight years experience working at the SBDC. The network reports it has assisted more than 79 thousand businesses since its



EDD FY13 Funding by Division		
	FY13 Budget (in thousands)	FTE
Economic Development	\$2,887.0	26
Film Office	\$861.8	9
Mexican Affairs	\$88.3	0
Technology	\$20.0	0
Program Support	\$2,591.6	21
Total	\$6,448.7	56

Source: LFC files

Economic Development



New Mexico's exports grew 100 percent from January 2010 to June 2012, to a total of \$1.5 billion during the first six months of 2012.

inception and assisted in the creation of 1,196 jobs in FY12. The Legislature appropriated \$3.9 million for operations in FY13.

Film Industry. Statistics on activity levels in the local film and digital media industry are varied and difficult to assess, in part due to a longer timeframe from film production to tax credit payout. The value of credits claimed fell significantly in FY12 to less than \$10 million, but much of this can be attributed to the changes in the payout schedule. However, since the new \$50 million cap was instituted for the film production tax credit, the number of film and media projects principally made in New Mexico dropped from 109 in FY10, to 96 in FY11, to just 57 in FY12. These numbers remain unaffected by the timing of credit payments and are viewed as representative of the state of the film industry in New Mexico. This might be evidence the industry does not have roots in New Mexico and can easily move from state to state depending on incentives.

Spaceport America. Construction of New Mexico's \$209 million spaceport continues, with phase one construction 99 percent complete and phase two construction approximately 50 percent complete. Because of an unexpected change in the requirements of anchor tenant Virgin Galactic, the runway was lengthened from 10 thousand to 12 thousand feet. Virgin Galactic, after some delays, plans to launch its first commercial tourist craft from the southern New Mexico site in December 2013 but notes this date might change. Competition for additional tenants is increasing as other states create their own spaceports. New Mexico faces three primary challenges to the success of its operation: a remote location far from commercial airports, a taxation climate considered by some companies to be uncompetitive, and – according to the Spaceport Authority – a revised informed consent statute that protects not just spaceflight companies but also suppliers and manufacturers as in some peer states.

Border Economy. The Union Pacific Railroad began construction on its new \$400 million fueling and intermodal facility west of Santa Teresa. The project will employ 3,000 construction workers and 600 permanent employees by the time it is completed in 2015. The key factor allowing Union Pacific to begin construction was passage of the New Mexico locomotive fuel tax deduction, which carries an estimated cost to the state of up to \$7.8 million in FY14.

Billed as Mexico's largest maquiladora, Foxconn, the largest contract manufacturer in the world, employs 7,000 workers at its new facility in San Jeronimo, Chihuahua. The plant is just across the border from Santa Teresa and could eventually grow to 20 thousand workers. Foxconn's operation and the impending completion of the Union Pacific facility have helped to bring supporting logistics operations and other companies to the New Mexico side of the border.

Balancing development of natural resources with protection of the environment continues to challenge policymakers. In addition, water – its scarcity and its quality– is increasingly driving management policy.

Water Availability. The ongoing drought in New Mexico increases the strain on an already limited water supply. Eight of the 12 years since 2000 have been dry in the state. The Palmer Drought Index, measuring temperatures and precipitation, indicates current drought conditions are the worst since the 1950s. Water scarcity is devastating to farming, ranching, and communities in New Mexico.

In New Mexico, the state constitution makes priority of right, "first in time, first in right," the basis for water administration. Although litigation to establish the relative priority rights of water users has lasted decades, adjudications are still decades away from completion. In the absence of full adjudication, the state lacks a legal basis for enforcing water rights in the event of a priority call, the allocation of available water to those with highest priority. To respond to the need for water rights administration without full adjudication, the Office of the State Engineer (OSE) launched the active water resource management (AWRM) initiative in 2004 for permitting and expediting transfers, as well as monitoring and metering diversions. The initiative also defined the documents allowable to identify priorities for water administration when rights are not adjudicated or licensed; however, the AWRM was challenged in court. In 2010, the New Mexico Court of Appeals rejected using documents other than court decrees and licenses for administration. In November 2012, the Supreme Court upheld that the Legislature delegated lawful authority to the State Engineer to promulgate the water administration regulations.

The drought substantially reduced the supply of native water in the Rio Chama this summer and the low flows continue. The Rio Chama Acequia Association, communities upstream, and the OSE are negotiating a shortage sharing agreement which, if approved by the OSE, may be an alternative to priority administration. Furthermore, the acequia association has been working with the OSE and the Middle Rio Grande Conservancy District to purchase San Juan Chama Project water to offset water use in times of drought.

In 1991, the Legislature directed the Interstate Stream Commission (ISC) to purchase and retire water rights on the Pecos River to meet the interstate compact obligations and avoid the economic consequences that would result from net delivery shortfalls to Texas. Between 1991 and 2012, the ISC spent \$68.2 million to acquire more than 21 thousand acre feet of water rights and \$14.4 million to lease more than 420 thousand acre-feet of water, resulting in a delivery credit of 100.1 thousand acre-feet in 2011. However, the acres purchased represent retired farm land, which might have generated agricultural production. Consequently, this process equated to lost profits for the agriculture industry. The ISC sold almost all land purchased during this process; however, water rights can be purchased and transferred back for future agricultural production.

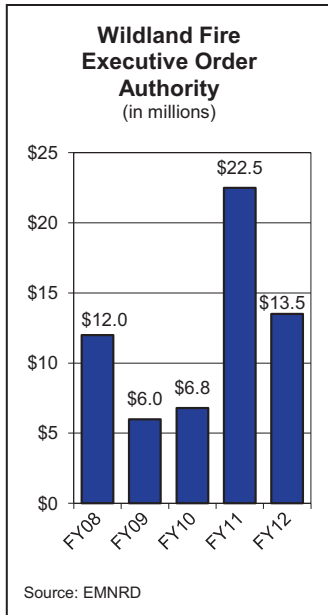
In 2012, all New Mexico counties were declared drought disaster areas by the USDA and were eligible for federal assistance.

Pending Water Rights Adjudication Suits		
Name	Filed/ Court	Estimated Defendants Pueblo or Tribe
Lower Rio Grande	1996/ State	18,000
Pecos	1956/ State	14,500/ Mescalero Apache
San Juan	1975/ State	11,500/ Navajo, Jicarilla Apache, Ute Mountain
Nambe/ Pojoaque/ Tesuque	1966/ Federal	5,600/ Nambe, Pojoaque, Tesuque, San Idelfonso
Taos/ Hondo	1969/ Federal	5,200/ Taos
Santa Cruz/ Truchas	1968/ 1970/ Federal	5,000/ Nambe, Pojoaque, Santa, Clara, San Idelfonso, San Juan
Chama	1969/ Federal	4,600/ San Juan, Jicarilla Apache
San Jose	1983/ State	2,000/ Acoma, Laguna
Santa Fe	1971/ State	1,500/ Cochiti
Jemez	1983/ Federal	1,100/ Jemez, Zia Santa Ana
Zuni	2001/ Federal	1,000/ Zuni, Ramah Navajo, Navajo Nation
Animas	2005/ State	500

Source: OSE

Elephant Butte in southern New Mexico, the Rio Grande's largest reservoir, is at just 5 percent of capacity, according to the U.S. Bureau of Reclamation.

Natural Resources



Dam Rehabilitation Capital Outlay Appropriations		
Year	Name	Amount (in thousands)
2002	Statewide	\$6,040
2002	Eagle Nest Lake Dam	\$6,000
2005	San Mateo Reservoir	\$50
2006	San Mateo Acequia	\$250

Source: LFC

Number of Wells Permitted by Year	
Year	Permits Issued for New Drills
2003	2,043
2004	2,414
2005	2,536
2006	2,684
2007	2,338
2008	2,355
2009	1,413
2010	1,729
2011	1,872

Source: EMNRD, OCD

Fires and Forest Management. Severe drought combined with full fire suppression forest management practices resulted in overgrown forests, producing timber-box conditions ripe for lightning and human-caused fires. In the last decade, New Mexico has seen an increase of catastrophic fires, more intense wildfires that burn hotter and faster and are more destructive. These fires are increasingly risky to people, property, and wildlife habitats. In summer 2012, the Whitewater-Baldy Complex fire in the Gila Wilderness burned 296.6 thousand acres, making it the biggest in the state's history. In FY12, the Forestry Division of the Energy, Minerals and Natural Resources Department (EMNRD) received \$13.5 million in emergency funding through executive orders to fight wildland fires.

Fire managers from the Forestry Division, the State Land Office, and the U.S. Forest Service thin forests to actively address density problems, enabling grasslands to flourish between the trees to create suitable cattle or wildlife grazing, increase income generation opportunities for state lands, and protect watersheds. In 2012, runoff from the burn scar of the Little Bear fire brought silt and ash into Bonito Lake, resulting in the loss of a water source for Alamogordo. Alamogordo is considering purchasing water from Carrizozo to supplement its water supply.

Dam Safety. New Mexico's dams are aging and deteriorating while downstream populations are increasing. The OSE reports 217 dams in New Mexico are deficient and half are classified as high-hazard. The 2012 estimated cost to address all deficient publicly owned dams is \$246 million. High-hazard dams are ones whose failure will likely cause loss of human life; while significant and low-hazard classifications pose less risk to human life, but failure could cause economic damage. To reduce the risk to public safety and economic assets, a dedicated state funding source and more local participation and prioritization is needed.

Energy. In 2011, 672 operators produced oil and gas from more than 56 thousand wells in New Mexico, surpassing 2009 and 2010 levels. The state approved 1,872 applications for permits to drill new wells in 2011, a 32.5 percent increase from 2009 levels. The growth is attributable not only to higher oil prices but also to technological advances that allow companies to tap supplies previously unprofitable to develop. These advances include horizontal drilling – a method to reach oil and gas not directly beneath the drill site.

The technological advances in horizontal drilling present challenges in protecting correlative rights and consideration must be given to the different drainage patterns of horizontal wells, as well as permitting and spacing processes. In July 2012, the U.S. Department of the Interior announced a draft order establishing buffer zones between oil and gas wells and potash mining operations in Eddy County due to the possible impact of horizontal drilling on potash mining.

Although variations of hydraulic fracturing technology – an extraction method that uses hydraulic pressure to create fractures in shale rock—

Natural Resources

have been used since 1947, concern has arisen about possible groundwater pollution from chemicals used in the process. In 2010, Wyoming became the first state to approve rules requiring public disclosure of the chemicals in fracking fluid. In Colorado, drillers disclose not only chemical names but also concentrations. The Oil Conservation Commission (OCC) of the EMNRD promulgated a rule effective February 2012 requiring drillers to disclose to the state the chemical ingredients of proposed fracking fluid. The fracking information is included in the well's file and is available to the public via a database on the EMNRD's website, giving communities a more accurate depiction of wells in their proximity.

Environmental Regulation. The state continually faces challenges to create a transparent and consistent regulatory framework that provides environmental protection while enabling industries crucial to the state economy to remain competitive. In 2011, the New Mexico Oil and Gas Association and the Independent Producers Association of New Mexico proposed amendments to the current "pit rule" that regulates how oil and gas operations manage drilling, siting requirements, construction, and closure of below-grade tanks. The proposed amendments include changing the siting requirements, allowing in-place burial if the distance to groundwater is adequate and allowing multi-well fluid management pits. The OCC began hearing testimony in May 2012 and will deliberate the rule in January 2013.

In 2009, the Legislature amended sections of the Water Quality Act to require the New Mexico Environment Department (NMED) to negotiate copper mining regulations with stakeholders to provide clearly defined requirements for preventing ground- and surface-water pollution. The recently proposed "copper rule" requires new water impoundments to install synthetic liners; however, existing impoundments are not required to be replaced as long as these are not contaminating groundwater. The Water Quality Control Commission is expected to promulgate the rule in January 2013.

In 2011, pursuant to the federal Clean Air Act, the U.S. Environmental Protection Agency (EPA) announced a clean air plan for the coal-fired San Juan Generating Station power plant aimed at reducing harmful emissions and improving visibility. In 2012, the EPA granted a stay to meet the requirements of the EPA plan so the parties can evaluate alternatives in the environmental and economic best interests of the state. In October 2012, the NMED proposed a less costly alternative and the EPA granted another stay to consider this alternative.

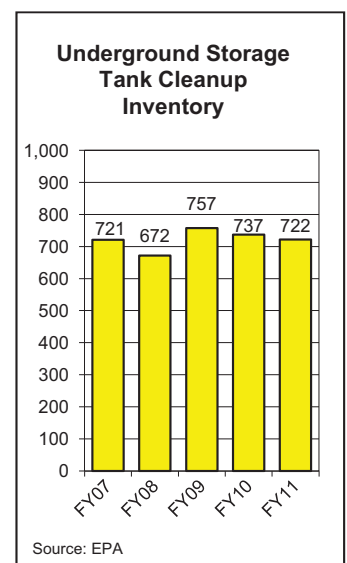
As outlined in a July 2012 LFC evaluation, the state will spend an estimated \$263 million from the corrective action fund over the next 20 years to clean up contaminated underground storage tank sites. Revised NMED rules, effective March 2012, now allow for "prohibition of delivery" to ensure fuel is not delivered to leaking gas station tanks. This adds significant strength to enforce regulation and should significantly increase compliance. As owners increase compliance, the number and severity of releases is expected to decline.

The state continues to be a leading producer of oil and natural gas, ranking 6th in crude oil production in 2011, up from 7th in 2010, and ranking 6th in natural gas production in the U.S.

2011 Crude Oil Production (in thousands of barrels)		
1	Texas	529,951
2	Alaska	208,749
3	California	196,189
4	North Dakota	152,985
5	Oklahoma	74,319
6	New Mexico	71,417
7	Louisiana	68,954
8	Wyoming	54,755
9	Kansas	41,486
10	Colorado	39,056

Source: U.S. Energy Information Agency

The Four Corners area in northwestern New Mexico experiences some of the highest rates of ozone and sulfur dioxide pollution in the state.



LFC TAX POLICY PRINCIPLES:

Adequacy:

Revenue should be adequate to fund needed government services.

Efficiency:

Tax base should be as broad as possible and avoid excess reliance on one tax.

Equity:

Different taxpayers should be treated fairly.

Simplicity:

Collection should be simple and easily understood.

Accountability:

Preferences should be easy to monitor and evaluate.

States listed by the Pew Center on the States as “leading the way” in evaluating state tax expenditures for jobs and growth:

- Arizona
- Arkansas
- Connecticut
- Iowa
- Kansas
- Louisiana
- Minnesota
- Missouri
- New Jersey
- North Carolina
- Oregon
- Washington
- Wisconsin

Tax expenditures, tax credits, deductions and exemptions that “cost” the state in foregone revenue, have been an important component of the state’s budget for years, but the state only recently started to identify and report them and analyze their effects. Further legislative work may improve the effectiveness and limit the fiscal impact of several tax expenditures whose cost may have been initially understated. Such expenditures include the gross-receipts tax deduction on tangible property consumed in the manufacturing process and the high-wage jobs tax credit.

Other areas of tax policy warranting policy changes include reduction of tax rates and concurrent broadening of both the corporate income and gross-receipts tax bases. This could be achieved by reducing taxpayer eligibility for tax expenditures or by allowing the expenditures to sunset. Coordination of state policy with federal policies, including implementation of the Affordable Care Act and Internet taxation, may be necessary to conform to federal statutes. This section also addresses corporate income tax (CIT) reporting requirements, progressivity of New Mexico’s tax system, adequacy and stability of local government revenues, and audit and compliance issues.

Tax Expenditures. Tax expenditures can be a popular means of targeting selected populations for benefits and also influencing decisions of private individuals to further the goals of public policy. New Mexico’s tax code has hundreds of tax expenditures in each major tax program that affect virtually all taxpayers.

Supporters of tax expenditures cite their advantages in meeting public policy goals. However, a troubling aspect of tax expenditures is that they function like entitlement spending, i.e. anyone who meets the statutory criteria may claim the tax benefit. Thus, the only way to control revenue outflow is to amend the statutes, and the state may lack the information needed to craft appropriate amendments. Both points emphasize the need to evaluate these programs to ensure the intended goals are worth the foregone revenue. The Pew Center on the States notes the importance of performing such evaluations to (1) inform policy choices, (2) include all major tax incentives, (3) measure economic impact, and (4) draw clear conclusions.

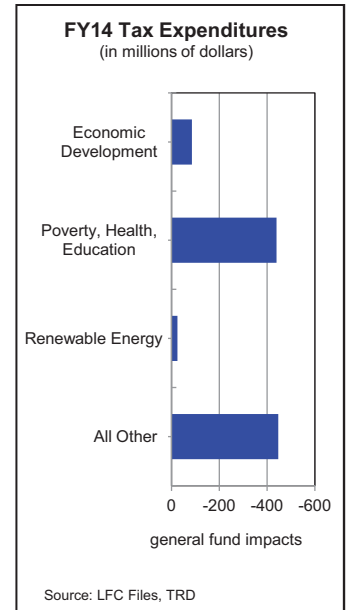
In response to a 2011 executive order, the Taxation and Revenue Department (TRD) published the *2012 New Mexico Tax Expenditure Report*, which reviews and analyzes New Mexico’s tax expenditure programs and provides a foundation for annual reporting. However, based on the Pew Center on the States’ evaluation criteria, it appears the report is incomplete. It does not include all tax incentives, it does not measure economic impact, and it does not draw clear conclusions. Consequently, it poorly informs policy choices. An improved report that addresses these issues could better inform policy decisions such as whether certain tax expenditures could be eliminated in favor of lower overall tax rates. A lower rate may be a more effective policy tool for economic development than targeted tax expenditures.

Economic Development Expenditures. New Mexico has numerous tax incentives for economic development, but assessing their impact requires a balance between the state's desire for information and concerns over the protection of proprietary information. Ideally, an evaluation would measure the impact on the state economy of new and expanding businesses, but this is difficult in practice.

Three key economic development tax expenditures are the film tax credit, the high-wage jobs tax credit, and gross-receipts tax deduction for manufacturing. The film tax credit, in place since 2002, can be claimed for 25 percent of direct production and direct postproduction expenditures made in New Mexico and attributable to the production of a film or commercial audiovisual product. More than \$75 million in credits were approved in fiscal years 2009 and 2011. The Legislature in 2011 capped the credit at \$50 million per year and implemented a tiered payment schedule, depending on the size of the credit, beginning in FY12. Film production companies are required to submit detailed information on their spending, which could provide more insight into the credit's effectiveness and help inform policy choices.

The high-wage jobs tax credit provides qualifying employers with a 10 percent tax credit, up to \$12 thousand, for each employee with annual wages and benefits totaling more than \$28 thousand if in a rural area and more than \$40 thousand if in an urban area. Eligible employers include those eligible for the Job Training Incentive Program (JTIP) or that earned more than 50 percent of their sales from out-of-state entities in the prior year. The cost of the credit is higher than initially estimated, with FY12 claims exceeding \$48 million, and FY13 projected at \$50 million. The credit is intended to create new jobs, but data suggests most of the claims are for jobs created from previous business activity. The TRD estimates as little as 19 percent of all FY12 credit applications were for jobs created during the current qualifying period. In the last two fiscal years, employers claimed credit for creating roughly 3,000 jobs. However, it should be noted that the UNM's Bureau of Business and Economic Research estimates employment actually declined by 258 jobs during that time.

Healthcare Tax Expenditures. Nearly 20 of the tax expenditures related to health care result in an estimated \$290 million annually in foregone revenue. The expenditures are typically intended to reinforce health policy goals, such as increasing access to healthcare services, recruiting and retaining healthcare professionals, or encouraging health-related companies to do business in New Mexico. The LFC study *The Impact of Financing Healthcare through Tax Code Policy and Local Counties* reviewed some of these healthcare tax expenditures. The largest healthcare tax expenditures are the insurance premiums tax credit for New Mexico Medical Insurance Pool (NMMIP) assessments, estimated at \$77 million for FY13, and the gross receipts tax (GRT) deduction for managed-care medical services, estimated at \$75 million.



The film credit is the largest economic development tax expenditure.

The majority of JTIP support is awarded to service, rather than manufacturing jobs. These include jobs at call centers that were shut down by one company and reopened by another, retaining the same employees but receiving a second round of JTIP funding. About 10 percent of these jobs are also eligible for the high-wage jobs tax credit, contributing to its fiscal impact.

New Mexico healthcare tax laws create a patchwork of different treatment in which taxes due depend on the type of service provided, the organizational form of the provider, and the source of payment.

General Fund Revenues from Medicaid Expansion under ACA (in millions) (includes induced effects)		
	FY14	FY15
PIT Increase	\$2.6	\$6.1
GRT Increase	\$6.6	\$9.3
Premium Tax	\$9.8	\$24.9
NMMIP Reduction		\$33.9
Total	\$19.0	\$74.2

Sources: BBER, LFC Files

General Fund Revenues and Expenditures from Medicaid Expansion (in millions)		
	FY14	FY15
Total Revenues	\$19.0	\$74.2
Total Expenditures	(\$13.1)	(\$23.0)
State Gain/(Loss) *	\$32.0	\$97.1

* Revenues minus expenditures

Sources: BBER, LFC Files

As ACA reduces the need for local financing of health care, a phaseout of the hold harmless provision could free up funds for distribution to federally matchable healthcare programs.

A concern about health care tax expenditures is that they deprive the state of funds that could be spent to generate matching federal healthcare funds. Thus, the overall benefit to the healthcare sector is questionable. Meanwhile, a “patchwork” of varying tax treatments exists in which some providers and payments receive preferred treatment, calling into question the fairness of the tax system.

Impact of the Affordable Care Act. With the possible expansion of Medicaid under the Affordable Care Act (ACA), many of these credits warrant further analysis. Under ACA, access to healthcare services should increase and potentially eliminate the need for some of these credits. Some of the following tax credits could be impacted by the implementation of the ACA.

Insurance Premium Tax. Health and life insurers pay a 4 percent premium tax in lieu of other taxes, primarily GRT. Although not explicitly stated, it is assumed this pre-emption makes New Mexico a more attractive business environment for insurers. Foregone revenue associated with this tax was \$84 million in FY10. Under the ACA, insurance companies might raise premiums in response to new requirements and increased numbers of insured. These impacts would increase the premium tax paid by insurers and could subsequently increase the foregone revenue.

Hospital Gross Receipts Tax Credit. New Mexico law allows a GRT credit to for-profit hospitals, about half the hospitals in the state. Foregone revenue due to this tax expenditure is about \$10 million per year. A premium increase for services associated with ACA implementation could increase foregone revenue from this tax credit.

New Mexico Medical Insurance Pool Assessment Tax Deduction. All health and life insurers operating in the state are subject to an assessment fee to subsidize the New Mexico Medical Insurance Pool (NMMIP). Insurers subject to the NMMIP assessment can deduct 50 percent, and in some cases 75 percent, of the total assessment paid against their premium tax obligation. Most of the NMMIP population will move to the healthcare exchange under the ACA, reducing or possibly eliminating the deductions and resulting in an estimated \$33.9 million increase in insurance premium taxes paid. The remaining population is likely to be ineligible for Medicaid.

Medical Service Provider Gross Receipts Tax Deduction. This deduction applies to providers that receive payments from any organized plan network, including health maintenance organization (HMO) and preferred provider organization (PPO) plans. Nearly all non-Medicaid medical services are exempt from the GRT. Foregone GRT revenue was \$70 million in FY11. A corresponding hold harmless distribution for local governments cost an additional \$30 million in FY11 and offsets local option GRT revenue losses resulting from the deduction.

Gross-Receipts Tax Pyramiding. Another tax expenditure for economic development with a large general fund impact is the 2012

expansion of the deduction for tangible personal property to include property consumed in the manufacturing process. The deduction was intended to exempt the cost of electricity used in the manufacturing process, but it can be construed to cover refining, processing, restaurants, and even art. Further, the electric utilities report it will be difficult to identify electricity “consumed” during manufacturing. These issues doubled the original estimate of the deduction’s general fund impact to \$4.7 million in FY13, rising to \$80 million when fully phased in by FY17. Corrective legislation should be addressed in the 2013 legislative session.

Corporate Income Taxation Methods. New Mexico’s top corporate income tax rate of 7.6 percent is high, compared with the national average of 6.4 percent. New Mexico’s CIT rate is especially high when considering a corporation can be taxed at the 4.9 percent personal income tax rate simply by organizing under another section of the IRS code. This violates the principle of tax equity. In 2011, the Council on State Taxation (COST) commissioned Ernst & Young to perform a 50-state study of effective tax rate/after-tax return on investment over a 30-year investment, New Mexico ranked last. The study found that tax rates and a complex tax credit incentive system are a burden on firms considering investments in New Mexico and are “almost certainly impeding economic growth.” Among other options, the New Mexico Tax Research Institute (NMTRI) noted a reduction in the top corporate rate would make New Mexico more appealing to business investment.

The NMTRI also addressed the option of allowing corporations to apportion income with a single- or double-weighted sales factor. All states parse a multistate corporation’s income into a state taxable base. New Mexico uses an “apportionment formula” that averages the percentage of a corporation’s sales occurring in New Mexico, the percentage of payroll in New Mexico, and the percentage of property (or assets or investment) domiciled in New Mexico. The equally weighted corporate income apportionment formula creates a disincentive to expansion in New Mexico; if a company increases its operations in New Mexico, its taxes in New Mexico would increase, even without the benefit of additional sales, creating a disincentive to growth. Firms can lower exposure to New Mexico tax by firing workers and closing plants.

The “single sales” factor, by which income is apportioned only on the percentage of sales made in the state, is the alternative in favor nationally. This formula does not punish firms for investing or employing workers within a state. In New Mexico, a single sales formula would likely benefit extractive and manufacturing industries while penalizing direct sellers of goods and services and multistate banks. Mining and manufacturing pay well over half of New Mexico CIT, however, and this formula could result in lower revenues.

A corporate subsidiary doing business in New Mexico can pay taxes on a “separate corporate entity” basis or the entire corporation can pay on a “combined reporting” basis. Separate reporting brings up

A reduction of the top corporate income tax rate from 7.6 percent to 6.4 percent would reduce general fund revenue by approximately \$61 million in FY14.

Counties with Total Revenue Decreases: FY09 - FY11	
County	Revenue Change
San Juan	-45.8%
Quay	-39.1%
Santa Fe	-30.3%
Mora	-25.1%
Rio Arriba	-24.2%
Los Alamos	-22.9%
Sierra	-17.5%
San Miguel	-16.6%
Union	-15.3%
Socorro	-13.0%
Average All	-11.2%

Source: DFA-Local Government Division

Counties with Total Revenue Increases: FY09 - FY11	
County	Revenue Change
Guadalupe	120.6%
Taos	118.5%
Hidalgo	55.7%
Harding	45.2%
Lincoln	17.0%

Source: DFA-Local Government Division

concerns about charges between related companies. For example, a company domiciled outside of New Mexico might provide management services or legal services to one domiciled in New Mexico and receive a payment for those services. The company making the payment would incur an expense. If the paying company is reporting on the separate entity basis, this expense will reduce its taxable income. The company not domiciled in New Mexico receiving the payment increases its income, and if it is located in a state with no income tax it might avoid the tax. Although it is hard to estimate the impact of this activity, combined reporting eliminates any chance of “gaming the system” because the income of all members of the corporate group is included. Because of the sales factor, combined reporting could have unintended consequences because a corporation could pay more tax based on the profits of its affiliates nationwide, regardless of whether the in-state subsidiary is profitable.

Progressivity. The “equity” principle holds that taxpayers should be treated fairly; this can be construed to mean tax burdens should be distributed according to taxpayers’ ability to pay. This principle could be cited in defense of a progressive tax rate schedule in which the tax burden, as a percentage of income, increases as income rises. Many states, including New Mexico, make use of both sales and income taxes in part because the regressive nature of sales taxes is balanced by the progressive nature of income taxes. Several policies increase the progressivity of New Mexico’s tax system. The low-income comprehensive tax rebate uses the personal income tax to redistribute income. This policy is enhanced by the addition of the working families’ tax credit and the low and middle income personal exemption. The NMTRI posted a 2006 study assessing the progressivity or regressivity of state tax systems by calculating the ratio of tax burden percentages of lower income taxpayers to those of higher income taxpayers. The study reported that, in 2000, New Mexico’s tax system was among the most progressive in the nation. The NMTRI estimated income tax reform in 2008 would reduce progressivity, moving New Mexico toward a comparatively proportional tax system. The effect on progressivity of any changes in tax policy should be considered.

Taxing Internet Sales. Legislation at the federal level addressing the sale of Internet-based goods and services may require conforming legislation at the state level. The Marketplace Equity Act and the Marketplace Fairness Act (H.R. 3179 & S. 1832, 112th Congress, 2nd Session) would grant states authority to impose taxes on remote Internet retailers and sellers of services that compete with local businesses. Currently, these out-of-state businesses do not have to pay sales or gross receipts taxes, giving them a price advantage over brick-and-mortar stores. In addition, the enlarged tax base would generate additional tax revenue in New Mexico. As currently envisioned, remote sellers would pay the tax rate of the local jurisdiction to which the goods or services are delivered. For example, an item delivered in Albuquerque would pay the total Albuquerque gross receipts rates.

Local Government Revenues. Local governments in New Mexico administer a large and growing revenue base, comparable to roughly 50 percent of the funds distributed through the state budget. The distribution of these resources is uneven across communities, and the revenue bases of many local governments are unpredictable. Limited local revenue-generating capacities might limit the provision of public services in some communities. State revenue sharing and appropriations, although a substantial part of local revenues, do not appear to be sufficient to reduce these disparities.

Local revenues are volatile in both counties and municipalities. Between FY09 and FY11, total county revenues declined by almost 11 percent. Twenty-one counties saw revenue decreases of up to 48 percent, while 12 counties saw revenue increases, including two with revenue growth of more than 115 percent. Total municipal revenue did not grow significantly between FY08 and FY10. During this time, 44 cities saw revenue loss, 18 of which had decreases of more than 25 percent. Fifty-four cities saw revenues grow, including increases over 50 percent in 19 cities.

The Legislature needs more detailed and timely information from the Department of Finance and Administration to guide decision-making about local budget adequacy. Information at present is limited, and forming valid comparisons among local areas and over time is very difficult. Greater efforts are needed to produce a “state-of-the-state” summary that could be used to inform legislative efforts to support local public services. Timely financial reporting will also avoid embarrassing failures of political subdivisions that could result in drastic cuts in services, an expensive bailout, or a state takeover.

Audit and Compliance. New Mexico has been proactive in efforts to limit tax fraud, with several recent success stories. However, the state could benefit from a strategic approach to addressing the state’s overall tax gap and tax fraud in particular. For example, California performed a tax-gap analysis (following the federal government) and implemented a multiyear plan to address root causes. The plan includes “soft” approaches to increase taxpayer confidence, reduce burden and complexity, and increase willingness to comply, and “enforcement” approaches that compel payment and enforce penalties. Additional efforts of other states include penalties for use of tax-zapping technology -- typically devices, software or both that allow businesses to create a second set of books to hide transactions -- and requiring monthly electronic reporting of wholesale alcohol and tobacco sales, making it easier to identify retailers who do not pay sales taxes to the state.

New Mexico should consider performing a tax-gap analysis and develop a plan of action based on the results. Similarly, the TRD’s Audit and Compliance Division could benefit from a strategic audit plan to help ensure resources are allocated for the best possible return on investment.

Recent successful New Mexico tax fraud efforts:

- February 2012: Investigation intercepted potential identity theft rings attempting to file nearly \$2 million in false electronic tax returns.
- June 2012: A local tax preparer is investigated for filing 445 false electronic returns worth about \$150 thousand in refunds.
- June 2012: NM hunting outfitter indicted by a Santa Fe grand jury on attempted tax evasion for not filing or paying more than \$36 thousand in gross receipts taxes.

Tax Gap: The total amount of taxes owed but not paid by four categories of taxpayers: non-filers, under-reporters, under-payers, and fraudulent taxpayers.

Public Employee Compensation

Compensation Estimate for Fiscal Year 2014 (in millions)	
Agency	One Percent General Fund Salaries With Benefits
Legislative	\$116.1
Judicial	\$1,200.3
Classified/Exempt	\$5,864.8
Total All Agencies	\$7,181.2
Public Schools	
Teachers	\$11,267.3
Instructional Support	\$1,664.7
Other	\$4,785.3
Transportation	\$442.8
Total Public Schools	\$18,160.1
Higher Education	\$5,844.8
Special Comp	
State Police Officers	\$763.0
Motor Trans Officers	\$115.0
Total Special Comp	\$878.0
Total	\$32,064.1

Source: LFC Files

New Mexico continues to confront the problems of recruitment, reward, and retention of public employees. As a result of the challenging fiscal conditions of the last few years, public employees have accepted a number of tough policy actions, affecting both their compensation packages and their opportunity for professional growth. Over time, the state implemented hiring and salary freezes, increased employee contributions to pensions by passing a temporary “swap” of employee and employer contributions, imposed furloughs and workforce reductions, and decreased the potential for internal promotions based on performance. The looming insolvency of pension funds adds another potential financial burden public employees might be forced to assume.

Although many individuals choose government jobs to serve the public, equitable compensation and steady advancement are still important factors in whether someone chooses to either enter or stay in government. According to the *2012 Classified Service Compensation Report* developed by the State Personnel Office (SPO), although the state remains relatively competitive in the region, salaries are lagging in a number of critical “benchmark” jobs. Further, analysis indicates both the public and private sector will increase salaries in the coming year, resulting in New Mexico falling even farther behind the salary market. The state should develop innovative compensation policies that attract, reward, and retain the best qualified candidates in the market.

The committee recommends \$32 million from the general fund be used for compensation and benefits increases. The compensation increase will average 1 percent for all state public employees. The action acknowledges that state public employees have not received a salary increase from the Legislature since July 2008, with the majority of salary increases being appropriated between 2001 and 2007. Further, according to the *2012 Classified Service Compensation Report* from the State Personnel Office, salaries for state public employees have not kept pace with inflation or changes in the public and private sector salary market. Data aggregated by the Legislative Finance Committee indicates that while the number of state classified employees declined over the last several years, appropriations for personal services and employee benefits continue to rise, leaving some additional flexibility for agencies to provide variable salary increases based on performance. The committee recommends the increases become effective July 1, 2013.

State Agency Compensation. Based on the *FY12 Fourth Quarter Workforce Report* from SPO, the average total compensation – salary plus benefits – for state employees declined from \$69,853 in FY11 to \$69,240 in FY12, a decrease of 0.9 percent. The average salary declined slightly from \$41,986 in FY11 to \$41,912 in FY12; the average benefits declined from \$27,867 in FY11 to \$27,328 in FY12. The average compa-ratio – an expression used to identify an employee’s position within a pay band relative to the mid-point of that pay band – declined to 101 percent in FY12, compared with 102 percent in FY11.

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According to the *2012 Classified Service Compensation Report*, New Mexico currently ranks fifth in total compensation when compared with other states in the eight-state regional market survey, down from fourth in the 2011 Report. However, a more in-depth analysis completed at the individual classification level indicates that New Mexico is as much as 50 percent behind the market average in a number of critical “benchmark” classifications.

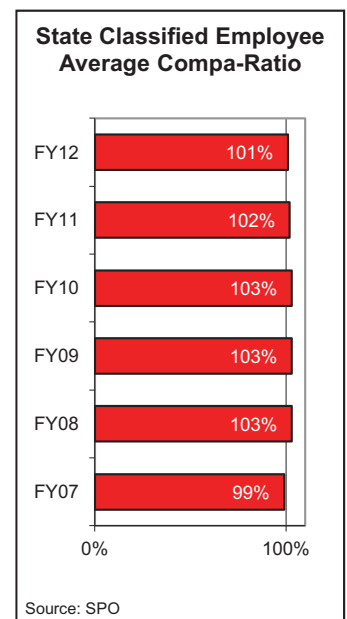
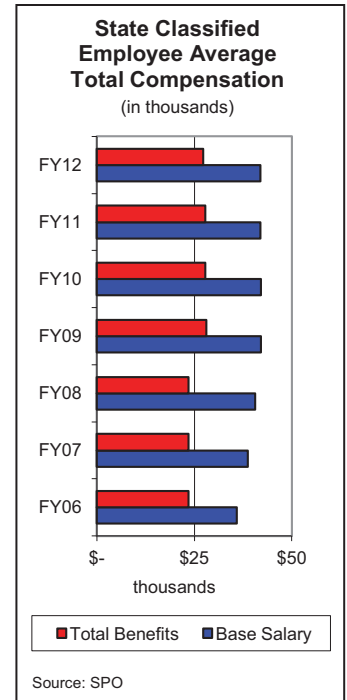
Of equal concern, the average new-hire compa-ratio for FY12 is 94 percent, compared with 91 percent in FY11. This is particularly relevant because it indicates that current New Mexico agency salary structures are below external market salaries and individuals must be paid higher to accept positions in government. As a general observation, the state salary structure has not kept pace with either the market or inflation, significantly impacting the state’s capacity to recruit, reward, and retain quality employees.

According to the SPO, the state should address several interrelated policy issues if it hopes to stay competitive. First, it should adjust state salary structures – entire pay bands, not just individual salaries – to reflect market trends. Although some overarching “catch-up” salary increases might be needed, emphasis should be placed on classifications and agencies that provide critical services or are furthest behind market trends. The SPO contracted with the Hay Group to assess the state salary structure, establish a more competitive framework, and propose a Legislative plan to address the problem.

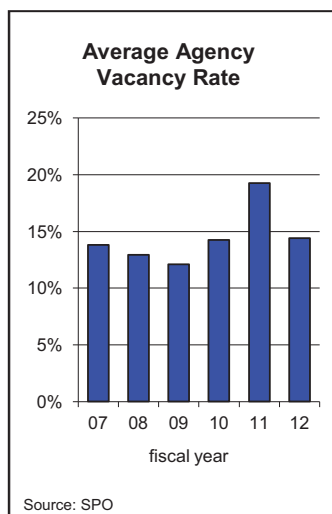
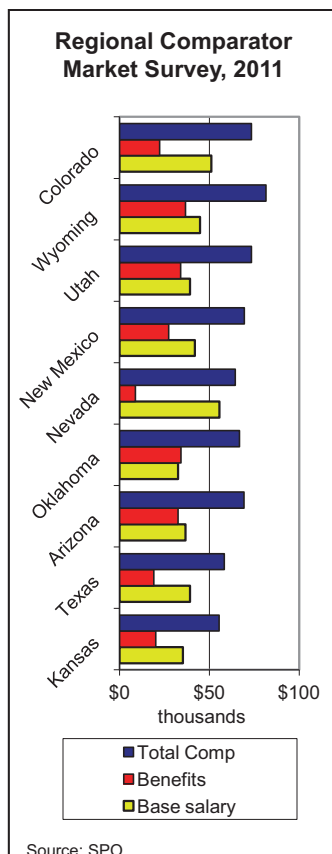
Second, the state should consider a more appropriate balance between salary and benefits. Current market trends suggest the public, private, and nonprofit sectors are all migrating to compensation structures that provide more direct compensation (wages and salaries) and less indirect compensation (benefits and retirement), primarily because younger employees would prefer cash in hand for immediate needs. Based on market surveys, New Mexico is noticeably different in this regard. Here, wages and salaries account for 60.6 percent of total compensation, compared with the typical 70.4 percent in the private sector and an average of 65.4 percent in other state and local governments. Similarly, New Mexico provides 39.4 percent in benefits compared with 29.6 percent on average in the private sector and 34.6 percent on average in other state and local governments. Finally, New Mexico provides 8.1 percent in retirement and savings compared with 3.7 percent on average in the private sector and 8.2 percent on average in other state and local governments.

Although deferred earnings are a critical factor in maintaining a comfortable quality of life in later years, employer-paid benefit and retirement packages create significant financial obligations for the state in the long-term. As such, the state should consider innovative approaches more consistent with national trends and employee needs.

Third, the state should establish incentive structures for performance. Recent analysis by the SPO indicates fewer than 60 percent of state employees receive completed performance appraisals annually. Without an appraisal, state employers lack an effective mechanism to



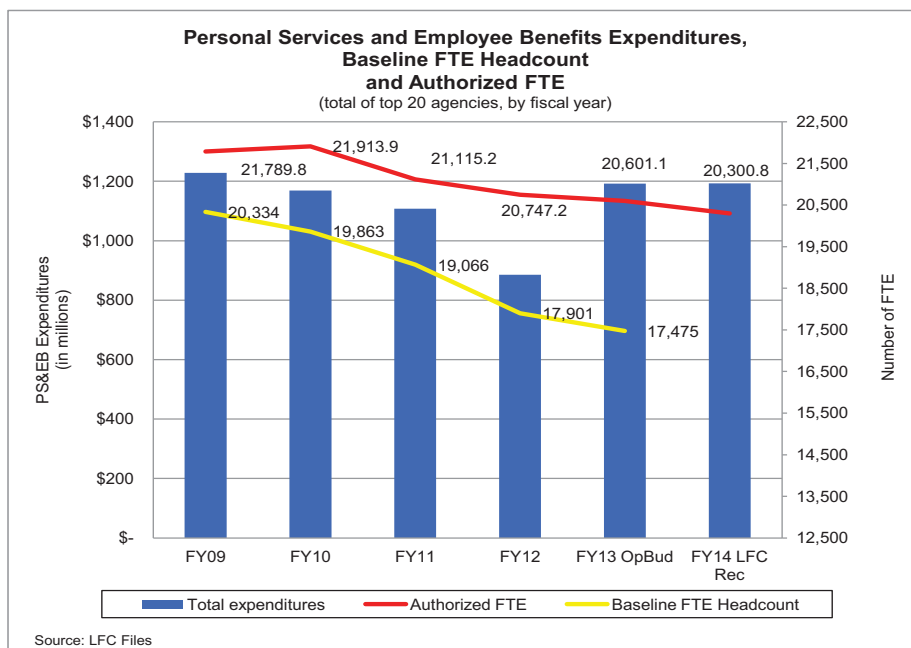
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provide merit-based increases – variable rewards, bonuses, or other forms of incentive packages. As a general observation, an effective compensation system should reward individuals who are more engaged and add more value to an agency. Significantly, this is a proven approach to recruit and retain qualified employees in the public, private, and nonprofit sectors.

The state has been unable to effectively address these issues because of an economic downturn, but improving fiscal conditions offer an opportunity for policy change. The SPO states that WorldatWork, a global non-profit professional association, projects average salary structure adjustments of 1.9 percent and average merit increases of 2.9 percent in FY12.

Analysis indicates that in spite of the decline in the number of authorized FTE and actual number of FTE working, appropriations for personal services and employee benefits have not been reduced accordingly. In fact, agency-requested appropriations for FY14 for the top 20 agencies is almost 15 percent higher than FY12 actual expenditures and agency operating budgets for the top 20 agencies are 2.1 percent higher than FY12 actual expenditures.



The Legislature should consider reallocating surplus funding levels to a larger salary increase for state public employees beyond the 1 percent increase recommended by the LFC.

Impact of State of New Mexico v. American Federation of State, County, and Municipal Employees, Council 18. The New Mexico Court of Appeals, in a 2-1 decision, upheld a district court decision confirming arbitration awards in favor of union-represented classified employees and against the state. At issue in the case were two separate collective bargaining agreements between the state and the American Federation of State, County, and Municipal Employees

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(AFSCME) and the state and Communication Workers of America (CWA), and whether agreement provisions pertaining to salary increases preempted general legislative appropriation language and the language as implemented by the executive branch. The bargaining agreements include provisions pertaining to contractual salary increases in fiscal years 2007, 2008, and 2009: a 2 percent general salary increase subject to the governor's recommendation; and a compa-ratio, within-band salary increase. The agreements included arbitration clauses, including one specifying the unions had a right to reopen bargaining over both salary increase provisions if the Legislature failed to appropriate sufficient funds.

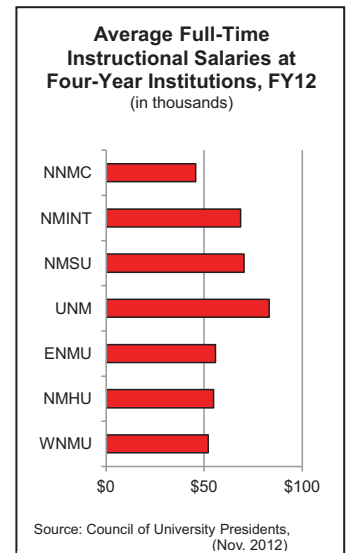
The state of New Mexico filed an appeal with the New Mexico Supreme Court. Should the Supreme Court accept the appeal and uphold the lower court's decision, the liability will include both nonrecurring (for FY09-FY13) and recurring (FY14 and beyond) expenditures for salary increases; bonuses or reclassifications that result in increased salary; increased state retirement fund contributions based on higher salaries; and any other increased payments for employee benefits. SPO projections suggest that nonrecurring costs to the state might range from \$20 million to \$30 million and recurring costs might be approximately \$9 million to \$10 million.

The Legislature should consider and review whether current language in the General Appropriation Act is sufficient to instruct the State Personnel Board to implement compensation increases consistent with current collective bargaining agreements and statewide compensation policies and goals. For example, appropriation compensation language could include multiple provisions that specify compensation appropriations by bargaining units (as is done in other states).

Higher Education. Since the recession began, the "new normal" in higher education reflects growth in institutional expenditures and shifting revenue sources (from state and other revenues to increasing tuition and fee revenues) to meet demands. Generally, total compensation comprises 70 percent of all instructional and general spending in an institutional budget.

When reviewing compensation at both private, nonprofit and public institutions, compensation is 70 percent salaries and 30 percent benefits. New Mexico's public institutions report similar ratios, though closer to 75 percent salaries and 25 percent benefits. Even though salaries are a large part of the compensation package, faculty salaries at New Mexico institutions consistently rank in the bottom half (below 40 percent of average salaries by position rank and educational level) when compared with all public institutions. From a national perspective, salaries at public institutions are lower than those at private, nonprofit institutions, and this gap is more pronounced when comparing New Mexico's salaries. To address insufficient state-funded compensation during the last four fiscal years, many institutions used increased tuition revenues in FY12 or FY13 to fund one-time salary adjustments for select groups of employees, staff, and faculty or implement modest salary increases, ranging from 2 percent to 4 percent for faculty and professional and support staff.

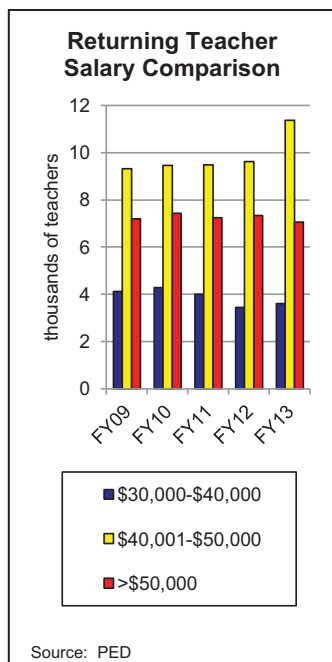
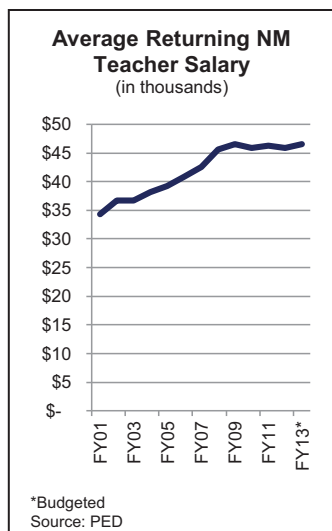
For FY13, the range of compensation increase for all types of higher education institutions was 2 percent to 3 percent.



Number of NM Colleges Giving Compensation Increases, FY13			
	Research	Comp. Four-Year	Two-Year
Faculty	2	2	9
Adjunct Faculty	1	0	9
Prof. Staff	2	2	9
Support Staff	2	2	0
Grad./Tch. Asst.	2	0	n/a
Students	1	0	0

Source: FY13 Institutional Operating Budgets (May 2012)

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NEA estimates New Mexico's average annual public school teacher salary for the 2009-2010 school year to be \$46,258.

Source: Rankings and Estimates (NEA)

Public Education. Appropriations to public schools for employee salaries and retirement benefits have increased \$478 million since FY02. Of this amount, \$442 million supported direct salary and benefits for licensed employees and certified and noncertified staff. The remaining \$36 million supported increased employer contributions to the Educational Retirement Board fund (ERB), including solvency measures.

School districts, which control how the appropriation is spent, used a considerable portion of the increase for direct salaries and benefits funding. Between FY04 and FY09 \$330.5 million was used to pay for teacher salary increases and the incremental cost of the three-tiered licensure system between. Statute mandates minimum salaries for teachers with a level one license (\$30 thousand), a level two license (\$40 thousand), and a level three license (\$50 thousand). As a result, the estimated actual average annual returning teacher salary has increased by almost \$10 thousand since FY03. According to the most current *Rankings and Estimates* published by the National Education Association (NEA), New Mexico is ranked as having the 8th largest average annual salary increase from FY01 to FY11, an increase of 38.8 percent over that time period. Upward movement through the licensure system is generally not dependent on producing improved student outcomes.

The Legislature has not specifically appropriated funding for teacher or school staff salary increases since FY10, though a number of districts have been able to manage salary increases within appropriation levels since FY10. For FY13, the average budgeted annual returning teacher salary, based on estimated contracts, increased 1.4 percent to \$46,469, and includes modest budgeted salary increases by a number of districts. Despite large growth in annual salaries between FY03 and FY09, NEA ranked New Mexico as having the 10th lowest average teacher salary in the nation in FY09. Though New Mexico is ranked in the bottom quarter of average salaries nationally, the state funds a relatively rich retirement benefit plan for educators.

Policy discussions continue to focus on recruitment and retention of high-quality teachers, the appropriate balance between take-home pay and retirement benefits, and ensuring teachers are producing significant student learning gains in exchange for moving up in licensure level and receiving large pay increases (between 25 percent and 33 percent salary increases). Current discussions to overhaul ERB benefits for new members fail to adequately address recruitment and retention issues because they focus on addressing the insolvency of the fund through contribution increases of employees. ERB members have noted the plan changes may negatively affect the quality of the future educator workforce, though the issues have not been adequately analyzed by the ERB, the Public Education Department, districts, or other stakeholders.

Pensions & Other Benefits

Pension Plan Solvency. The Public Employee Retirement Association (PERA) and Educational Retirement Board (ERB) pension plans rely heavily on the market value of assets keeping pace with the actuarial value of pension obligations. Plan administrators manage portfolios by balancing the adverse effects of volatile markets with contribution increases. This approach has proven unsustainable, and states must now manage solvency by adjusting pension benefits while maintaining contributions at levels that support recruitment efforts and are affordable for taxpayers.

The Retiree Health Care Authority (RHCA) began in 1990 with limited advanced funding for its accruing liabilities, and it began paying claims for 15 thousand retirees six months later. A retiree who is eligible to receive a pension from PERA or ERB is eligible for the benefit, as are their spouses and children. Retiree premiums are subsidized based on years of service, with the maximum, 50 percent, given at 20 years. Overall, retirees receive a health insurance benefit that exceeds the value of all combined contributions during 25 years of employment.

Unfunded Accrued Actuarial Liability. The unfunded accrued actuarial liability (UAAL) is the dollar difference between a plan's liabilities and the assets needed to pay off those liabilities, based on assumptions regarding investment earnings and demographics. From FY09 to FY12, the PERA's UAAL increased from \$2.3 billion to \$6.2 billion and the ERB's UAAL increased from \$3.6 billion to \$5.9 billion. These dramatic increases are the result of lackluster investment returns, contributions that do not support generous benefits, automatic compounded cost-of-living adjustments (COLAs), lack of a minimum retirement age, and members living longer.

With a UAAL of \$3.6 billion, the RHCA plan is expected to become insolvent in 2029, at which time projected expenses will exceed projected revenues by \$265 million. Upward pressures include a growth in retiree membership of about 5 percent per year and medical inflation trending at about 8 percent per year. The board has the authority to make changes to benefit eligibility and subsidy levels but requires a statutory change for contribution increases.

Funded Ratio and Funding Period. Progress toward improving actuarial solvency is measured by two benchmarks: the funding ratio (assets/liabilities) and the funding period (amortization period of the UAAL). Over the past 20 years, pension liabilities have grown an average of 7.5 percent per year. Asset values have not kept pace with the liability growth, growing an average of 10 percent the first 10 of those years, and an average of about 3 percent per year since then. This has helped deteriorate the funded ratio to record lows as shown in Table 1. To preserve the state's credit rating, a funded ratio of 100 percent is recommended by the Governmental Accounting Standards Board (GASB); as is a funding period of no longer than 30 years for the UAAL. Both the PERA and ERB funding periods are infinite.

ERB Membership	
Actives	63,297
Retirees	33,747

Source: ERB

PERA Actives	
State	25,954
Municipal	31,266
Judicial	135
Magistrate	61
Legislative	129
Volunteer firefighters	6,650

Source: PERA

PERA Retirees	
State	14,866
Municipal	13,660
Judicial	118
Magistrate	78
Legislative	165
Volunteer firefighters	609

Source: PERA

Funded Status by PERA Plan	
Plan	Funded Ratio
PERA total	65.3%
State General	60.4%
State Police/Corrections	95.3%
Municipal General	69.5%
Municipal Police	65.8%
Municipal Fire	55.2%
Judicial	51.0%
Magistrate	53.2%
Legislative	91.8%
Volunteer Fire	167.9%

Source: PERA

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RHCA Membership	
Total Retirees	39,183
under age 55	8%
under age 65	40%
65 and over	60%
Spouses	9,857

Source: RHCA

New Mexico Constitution

New Mexico has a constitutional provision that makes pension benefits property rights protected by due process of the law. N.M. CONST. art. XX, § 22 further states: *Nothing in this section shall be construed to prohibit modifications to retirement plans that enhance or preserve the actuarial soundness of an affected trust fund or individual retirement plan*

New Mexico Statutes

The RHCA statute (Section 10-7C-5 NMSA 1978) states that no contract rights are created and the benefit may be modified or "extinguished"

ERB Current and Proposed Contribution Rates			
FY	EE Rate %	ER Rate %	Total Rate %
2013	9.4	10.9	20.3
2014	7.9	13.15	21.05
*2014	*10.1	13.15	23.25
*2015	*10.7	13.9	24.6

*proposed

Source: ERB

PERA Current and Proposed Contribution Rates			
FY	EE Rate %	ER Rate %	Total Rate %
2013	8.92	15.09	24.01
2014	7.42	16.59	24.01
*2014	8.92	16.59	25.51
*2015	8.92	17.09	26.01
*2016	8.92	17.59	26.51
*2017	8.92	18.09	27.01

*proposed general plan

Source: PERA

Table 1: Four-Year Trend of Funded Ratios FY09-FY12

Fund	FY09	FY10	FY11	FY12
ERB	67%	65%	62%	60%
PERA	84%	78%	71%	65%
*RHCA	N/A	5%	N/A	Pending

*RHCA conducts a solvency study every two year.

Source: LFC files

Discount Rates. In recent years, turbulent global capital markets reduced the value of fund assets, making it difficult for pension plans to rely on investment income to fund benefits to the extent they had before. During 2011, recognizing expectations for lower future investment earnings, the pension boards reduced the rate used to discount future liabilities from 8 percent to 7.75 percent. This caused an immediate increase in the UAAL of about \$400 million for ERB and about \$500 million for PERA. Over 25 or more years, plan earnings have met the target of 7.75 percent.

Table 2: Long-term Earnings History and Forecast

Fund	1 year	5 year	10 year	15 year	25 year	Earnings Target
ERB	2.0%	2.3%	6.8%	5.9%	8.7%	7.75%
PERA	-0.38%	- 0.3%	5.5%	6.3%	9.2%	7.75%

Source: LFC files

Partly due to a persistent low-interest rate environment, beginning July 1, 2013, new GASB reporting rules will require a blended discount rate to value future liabilities based on long-term investment returns for funded liabilities, between 7 percent and 8 percent, and lower municipal bond returns for unfunded liabilities, between 3 percent and 4 percent. The new calculation method will require plan administrators revisit their long-term assumptions more frequently, and lowering the rate would increase their UAAL dramatically.

New Mexico offers some of the richest public pension plans in the nation. The average contribution to a pension plan nationally is 14 percent; 8 percent by the employer and 6 by the employee. The contribution for the PERA state general plan is 24.01 percent: 16.59 percent by the employer and 7.42 percent by the employee. The contribution for the ERB plan is 21.05 percent: 13.15 percent by the employer and 7.9 percent by the employee. The PERA plan pays benefits equal to 3 percent of final earnings per year, and the ERB plan 2.35 percent, compared with the national average of 2 percent. In addition, both plans provide an automatic compounded COLA; the PERA's being 3 percent in year three of retirement, and the ERB's tied to the Consumer Price Index (CPI) with a ceiling of 4 percent. New Mexico, Arkansas, and Mississippi are the only states still awarding an annual 3 percent compounded COLA. Finally, neither plan has addressed a minimum retirement age for active employees.

National Trends. According to the National Conference of State Legislatures (NCSL); states have responded to pension funding challenges by making four types of changes to plans. Seven states have modified the COLA, with some linking future COLAs to the

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funded status of the plan or to returns on assets held in the fund. Twenty states have raised employee contributions for current and new employees and five for new employees only. Thirty-one states have reduced benefits for new employees, generally by increasing the age when full benefits are paid. Because most of the benefit reductions are limited to new employees, the changes will slow the growth in liabilities going forward but have no significant impact on the existing liability.

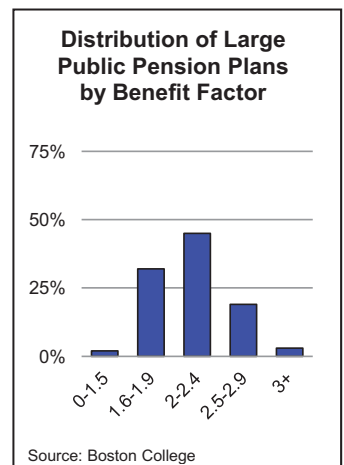
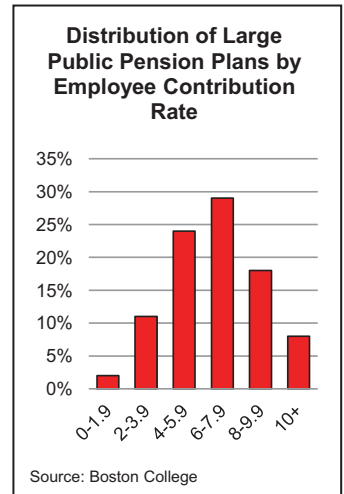
According to the Pew Center on the States, most states have set aside only 5 percent of the amount required to cover retiree health care. Seventeen states have saved nothing and seven states have funded 25 percent or more for the benefit. The Center for State and Local Government Excellence reports 68 percent of states are pushing to have retirees assume more of their healthcare costs, while 39 percent plan to eliminate retiree health benefits for new hires.

Solvency Proposals. To shore up the funds, the PERA and ERB will propose changes to contributions and benefits for FY14, shown in Table 3. The PERA proposal will pay off its liabilities due to an increase in employer and employee contributions, decrease in the COLA, and decrease in benefits for new hires after July 1, 2010. About 2,000 employees hired between July 1, 2010, and July 1, 2013, will see a 30 percent reduction in their pension benefit. The ERB proposal raises revenues by increasing employee contributions but does not significantly decrease spending. The ERB proposal also assumes the Legislature will fund a 0.75 percent employer contribution increase in FY14 and FY15. Neither plan pays down unfunded liabilities within 30 years, as recommended by GASB.

The RHCA board will propose an increase in the total employer and employee contribution of 2.25 percent over the current 3 percent, for a total of 5.25 percent, phased in over five years. This would increase the annual required contribution under a 30-year amortization from 35 percent to 85 percent but would not significantly reduce the UAAL. However, the proposal would reduce the unfunded liability of future benefits as they accrue for new hires.

Table 3: Comparison of Pension Plan Proposals						
	Date	UAAL \$M	Funded Ratio %	Funding Period years	EE ER %	Spending Changes
ERB	2011	5,658	63	infinite	2.8 increase EE only	new hires Min age 55 COLA @ 67
	2023	8,377	64.7	30.5		
	2033	8,683	72.8	16.3		
	2043	4,222	90.5	4.1		
PERA	2012	6,176	65.3	infinite	1.5 increase for each	COLA 2% all hires > 7/1/10 multiplier< 0.5% cap 90% *6/8 yr vesting FAS 5 yrs *Rule of 75/85
	2022	6,184	74.1	49.2		
	2032	5,838	81.7	17.3		
	2042	907	97.8	1.3		
RHCA	2012	3,600	6	infinite	0.75 EE 1.5 ER increase	none
*Public Safety/State General Plan Members					Source: LFC files	

The Center for Retirement Research at Boston College reported the average contribution to a public pension plan nationally is 14 percent, 8 percent paid by the employer and 6 by the employee.



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In tandem with generous benefits, New Mexico pension contribution rates are already high for teachers.

Sampling of Large Public Education Pension Plans

State	EE Rate	ER Rate	Total
AZ	10.9	10.9	21.8
*CO	8.0	10.15	18.15
ID	6.23	10.39	16.62
*NV	10.5	10	21.0
**ERB	10.7	13.9	24.6
OK	7.0	9.5	16.5
SC	7.0	8.05	15.05
*TX	6.4	6.0	12.4
UT	6.32	10.0	16.32
WV	6.0	7.5	13.5

*CO, NV, TX do not pay into Social Security

**ERB proposal long-term

Source: NEA, NCSL, LFC

APS Premium Subsidy

Salary	Employee	Employer
< \$29K	20%	80%
\$29K +	40%	60%

Source: APS

PSIA Premium Subsidy

Salary	Employee	Employer
<\$15K	25%	75%
\$15K -/<\$20K	30%	70%
\$20K -/<\$25K	35%	65%
\$25K+	40%	60%

Source: PSIA

GSD Premium Subsidy

Salary	Employee	Employer
<\$50K	20%	80%
\$50K -/<\$60K	30%	70%
\$60K+	40%	60%

Source: GSD

Cost-of-Living Adjustments. The COLA is the biggest driver affecting the viability of pension plans. The PERA is proposing to reduce the COLA from an automatic 3 percent to 2 percent for all current and future retirees and delay it up to seven years or to age 65 for future retirees. This will result in an immediate \$1.5 billion reduction to PERA's \$6.2 billion unfunded liability. The proposal also suspends the COLA for the 1,100 employees collecting benefits while reemployed with the state. The ERB is proposing to delay the COLA to age 67 for new hires only. The ERB COLA is currently tied to the CPI with a ceiling of 4 percent. Since 2010, 18 states revised provisions for an automatic COLA, in all cases reducing further commitments.

Additional Plan Change Options. Options exist that may improve the funding status of the plans in a shorter time and close loopholes. For example, the COLA could be 1.5 percent, with a floor of 0.5 percent and a cap of 2.5 percent, so that neither the retiree nor the taxpayer suffers from extremes. Closing loopholes for pension spiking is also important. This can occur when an employee works 20 years part-time, works the final five years full-time, and ends up with a full-time pension. A sounder approach might include prorating the pension according to benefits earned under the plan. Finally, a minimum retirement age for the pension plans would help preserve retiree health benefits. Independent of either plan instituting a minimum age, the RHCA has the authority to consider age-based subsidies that provide a lower subsidy for younger retirees and spouses.

Retirement Income Replacement Ratio. The Legislature might want to consider Social Security when deciding how much replacement income to provide a public employee at retirement. For instance, Social Security provides replacement income of 25 percent to 35 percent for most government workers, and the income stream from a 2 percent multiplier is 60 percent of final salary for 30 years worked. Policymakers should consider whether it is prudent to provide a public employee replacement income that eventually exceeds pre-retirement income, when combined with Social Security and a compounding COLA.

Employee Group Health Benefits. The RHCA, Albuquerque Public Schools (APS), General Services Department (GSD), and Public School Insurance Authority (PSIA) together form the Interagency Benefits Advisory Committee (IBAC) and provide group health benefits to more than 210 thousand state and school employees, retirees, spouses, and dependents at an annual cost that could soon be \$1 billion. As self-insured entities, the IBAC members pay for claims as they incur instead of paying a fixed premium to an insurance carrier. Administrative service fees are paid to health plans for claims processing and payment, and cost containment through access to discounted provider networks and utilization review that ensures healthcare was appropriately applied.

The IBAC reports healthcare costs for New Mexico state employees and retirees has increased an average of 8 percent annually. Past LFC

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performance evaluations have suggested medical cost increases are being driven by prices and not utilization. The evaluation reinforced the need to focus efforts on getting better pricing and value for services. After four years of flat premiums, the GSD proposes to increase employee and employer health premiums 15 percent in plan year 2013. The PSIA raised employee health premiums 6 percent in plan year 2012 and proposes to raise premiums 10 percent in plan year 2013. The APS proposes to increase employee contributions from 2 percent to 9 percent, depending on the carrier, in plan year 2013. To varying degrees, all plans are adjusting plan design to encourage prevention, discourage misuse of services, and stay ahead of the medical cost trend.

Cost Containment Initiatives. The delivery of healthcare can no longer be limited to a plan of benefits funneled through discounted provider networks. It will require more effort on the part of plan sponsors to understand the health risks of their respective pools, analyze claims information to identify who needs medical management, and review utilization more aggressively to reduce inappropriate tests and procedures. Additional strategies to contain costs could include a monthly surcharge for smokers and plan designs that encourage use of lower-cost providers, more generic drugs, less intensive treatments, and improved medical and prescription drug management for persons with chronic diseases.

National Trends. The average cost of insurance for single coverage for states was \$563 per month in 2012, with the state employer paying on average \$492 and the employee on average \$70, according to the NCSL. New Mexico state employee plans are below that amount and employers pay less and employees more toward premiums. In addition to higher premiums, state employees face higher deductibles. The average deductible for single coverage increased to \$500 and to \$1,000 for family coverage. The PSIA and GSD plans are below that average for single coverage and the APS has no deductible. Thus, over the past decade, premiums have increased, deductibles have been raised, and copays and coinsurances have increased. These changes slowed the growth of net income to most public employees, and in recent years, when there have been no increases in annual pay, take home pay has actually declined.

Federal Healthcare Reform. Medicaid expansion and health insurance exchanges could prompt state employers to revisit employee compensation and benefit strategies. Beginning in 2014, anyone with income at or below 133 percent of the federal poverty level could be eligible for Medicaid if the state expands Medicaid. That could include state employee families with income less than \$30,656 under current guidelines.

Comparison of Monthly Premiums earning less than \$50 thousand			
	APS \$	PSIA \$	*GSD \$
Single			
EE	168	207	99
ER	251	311	396
Total	419	518	495
Family			
EE	453	526	292
ER	679	789	1,168
Total	1,132	1,315	1,460

* Effective 7/2013 Source: LFC files

Comparison of Deductibles			
	APS \$	PSIA \$	GSD \$
Single	None	300	400
Family	None	900	1,200

Source: LFC files

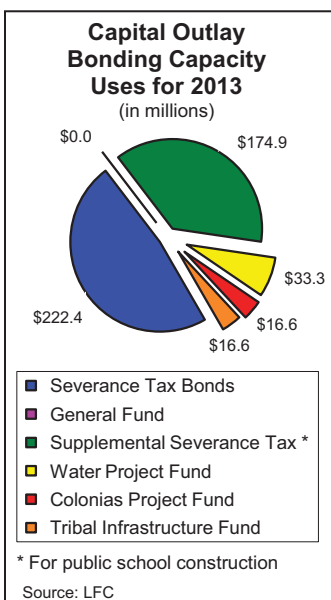
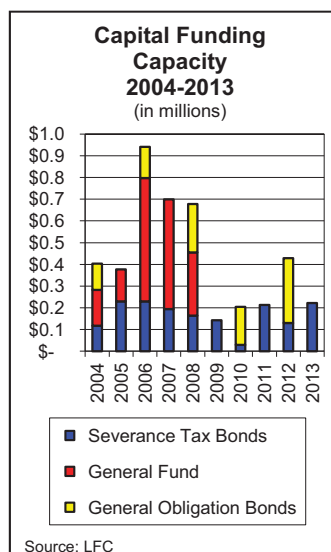
Comparison of Copays and Coinsurance			
	APS	PSIA	GSD
PCP Visit	\$25	\$20	\$30
Specialist	\$40	\$30	\$40
Hospital	\$750	\$500 +20%	\$400
Outpatient Surgery	\$250	\$150 +20%	\$200 +10%
Lab/Xray	0%	20%	10%

Source: LFC files

Out-of-Pocket Maximums			
	APS	PSIA	GSD
Single	2,000	2,800	3,000
Family	6,000	8,400	9,000

Source: LFC files

Capital Outlay



Policymakers change, but the large backlog of critical infrastructure and maintenance needs at the state and local level remain the same. The failure of a capital bill in 2011, stop gap appropriations authorized during the 2011 special session, and limited coordination between the executive and legislators in 2012 has led to a fragmented disbursement of capital dollars. Effective use of the state's limited resources is paramount to serving its citizens.

The \$1.4 billion capital outlay requests from state agencies, higher education, special schools, and local entities is much greater than the \$222.4 million available in severance tax bonding (STB) capacity. In addition, New Mexico has more than \$1.5 billion in unfunded road construction needs across the state. The availability of nonrecurring general funds for capital outlay will largely depend on policymakers' decisions of special and supplemental funding and agreement on the level of reserves.

In accordance with Section 6-4-1 NMSA 1978 and executive order 2012-023, the Department of Finance and Administration (DFA) and the Property Control Division of the General Services Department jointly prepared a process to identify and prioritize all state capital improvement projects. A similar process has not been developed for establishing priorities to provide state aid for local projects.

The executive encourages legislators to fund local projects prioritized in the Infrastructure Capital Improvement Plan (ICIP). Participation in the ICIP process, administered by the Local Government Division (LGD), is not statutorily required. According to the LGD, 304 political subdivisions, an increase of 23 percent over 2011, submitted ranked projects for the ICIP. The LGD will send a letter of explanation and the local ICIP to all legislators on the first day of the session.

A "preliminary uses" framework developed by Legislative Finance Committee (LFC) staff for STB and nonrecurring general fund capacity for consideration by the full Legislature is in Volume III. The proposed uses take into consideration the executive's criteria and priorities for state-owned facilities.

2013 Capital Funding Outlook. As detailed in Volume III, STB net capacity is \$222.4 million. Earmarked funds totaling \$241.4 million are designated for specific purposes. Supplemental severance tax bonds totaling \$174.9 million are dedicated for public school construction. Earmarked funds for water infrastructure, colonias, and tribal infrastructure total \$66.5 million, 30 percent of the total of net senior severance tax bond capacity. The 2012 allocation for the earmarked funds totaling \$52.8 million is listed on the LFC website.

Given reserve levels approaching 12 percent based on the LFC current recommendation, nonrecurring general fund potentially is available for capital outlay expenditures.

Capital Outlay

In November 2012, voters overwhelmingly approved general obligation bond issues A, B, and C totaling \$139.3 million. The bond issues include \$10.2 million for senior citizen infrastructure and equipment statewide; \$9.7 million for public school, academic, tribal, and public libraries statewide; and \$119.4 million for higher education infrastructure and renovations.

The Legislature established several revolving loan funds and grant programs to assist local entities with capital needs by providing no-interest and low-interest loans or grants. The New Mexico Finance Authority alone could generate \$1 billion for local projects.

Unexpended Funds. The Legislature appropriated or authorized more than \$1.2 billion between 2008 and 2012 for 3,851 capital projects. As of September 2012, approximately \$326.4 million for 808 projects is outstanding (including 2012 session authorizations). Only 1 percent of the outstanding funds were allocated from the general fund. Approximately \$3.8 million appropriated between 2009 and 2011 for 31 projects, sponsored by legislators, is idle.

**2008-2012 Capital Outlay Funding
"Outstanding" Projects Only**
(in millions)

Year	Number of Projects	Amount Appropriated	Amount Expended	Amount Unexpended	Percent Expended by Year
2008	8	\$23.60	\$16.60	\$7.10	70%
2009	128	\$107.90	\$69.80	\$38.10	65%
2010	137	\$73.10	\$40.60	\$32.50	56%
2011	147	\$98.00	\$16.10	\$81.90	16%
2012	388	\$173.10	\$6.30	\$166.80	4%
Total	808	\$475.70	\$149.40	\$326.40	

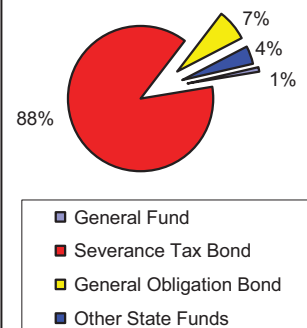
Source: Capital Projects Monitoring System

Capital Projects Greater than \$1 Million. As of September 2012, balances for projects \$1 million or greater total more than \$255 million for 133 projects, or nearly 78 percent of all unexpended balances.

Authorized but Unissued Bonds. Approximately \$43.9 million in authorized severance tax bonds remain unissued for 13 projects. Voters in Bernalillo County overwhelmingly approved up to \$50 million of city gross receipts tax revenue for reconstruction of the Paseo del Norte boulevard and Interstate 25 Interchange. The Bernalillo County Commission approved \$5 million in county general obligation road funds for the project while the state bond contribution, totaling nearly \$29.8 million, will be issued upon the certification of readiness by the city of Albuquerque to the State Board of Finance.

The two major projects not certified for bond issuance include the Human Services Department (HSD) information technology system

**Percent of
Unexpended Capital
Balances By Fund
2008-2012**



Source: LFC

**Capital Appropriations with
No Expenditures**
(in millions)

Year	Number of Projects	Amount
2009	23	\$ 3,210,552
2010	8	\$ 608,500
Total	31	\$3,819,052

Source: Capital Projects Monitoring System

**Status of Projects Greater
than \$1 Million**

LEGEND		
G	Project on schedule	88
Y	Behind schedule or little activity	23
R	No activity or bonds not sold	22
Total Active Projects		133
Other report information:		
B	Appropriation expended or project complete	28
X	Additional funds needed	3

Source: LFC

Capital Outlay

2012 Senior Severance Tax Bonds Earmarked Funds (in millions)		
Fund	Projects Awarded	Amount
Water	25	\$26.4
Colonias	40	\$13.2
Tribal	28	\$13.2
Total	93	\$52.8

Source: Capital Projects Monitoring System

State Board of Finance Severance Tax Bond Projects Not Ready for Certification	
Amount	Project Title
\$27,500,000	Paseo del Norte Blvd & I-25 Interchange
\$ 2,268,000	Paseo del Norte Blvd & I-25 Interchange
\$ 8,100,000	HSD Info Tech - "ASPEN"
\$ 5,000,000	HSD Los Lunas Drug & Substance Abuse Center
\$ 100,000	Ute Reservoir Pump Station Elec Services
\$ 100,000	South Valley Multipurpose Center Respite Addition
\$ 100,000	Grady Fire Truck Purchase
\$ 100,000	8th Street Improve / Coal-Bridge
\$ 100,000	Santa Fe Co. La Tierra Roads Improve
\$ 100,000	ENMU South Avenue "N" Improve
\$ 140,000	Bern Co. Adult Day Service Facility Improve
\$ 200,000	Comm for Deaf & Hard-of-Hearing Complex
\$ 50,000	Santa Fe Co. Disabled Facilities Improve
\$ 20,000	Santa Fe Co. Disabled Furnishings
\$43,878,000	Total

Source: State Board of Finance

(\$8.1 million) and the Los Lunas drug and substance center (\$5 million). The HSD anticipates requesting issuance of bonds for the information system in December 2012. The Los Lunas center, referred to as the Henry Perea Center for Wellness and Recovery, currently houses four nonprofit outpatient behavioral health providers: Partners in Wellness (PIW), Presbyterian Medical Services (PMS), TeamBuilders Counseling Services, and Valencia Counseling. The PIW serves as the on-site building manager and coordinates building maintenance needs with the Property Control Division and Human Services Department. Proceeding with phase two, intended for an in-patient treatment center, depends on the availability of state funds for operational purposes.

In 2009, the Legislature authorized \$2.5 million from the educational retirement fund to construct a new building or to purchase an existing building for the headquarters of the Educational Retirement Board (ERB). The ERB withdrew a 2013 request for \$9.6 million to continue the project. To date, \$45 thousand has been spent and the authorization to spend the balances will expire June 30, 2013.

State Debt. According to the latest data from the U.S. Census Survey of Government Finance, the combined long-term state and local debt per-capita for New Mexico was \$8,043 in 2010. The per-capita average for all states was higher at \$9,018, indicating New Mexico has not over-leveraged its residents relative to other states.

In New Mexico, state government accounted for 51.3 percent of the total amount of outstanding long-term state and local government debt, while local governments accounted for the remaining 48.7 percent. Nationally, state governments account for 39.5 percent of the debt, with local governments accounting for 60.5 percent.

Funding Requests for Consideration. State agencies, higher education institutions, and special schools requested \$608.1 million for capital projects. Criteria developed by the LFC staff for funding consideration by the full Legislature includes site visits, review of infrastructure capital improvement plans, monthly meetings with major departments, and testimony at hearings held during the interim. Given the disparity between funding capacity and requests, the following summaries reflect the most critical projects impacting public health and safety and projects requiring additional funds to complete. The LFC staff framework for "drafting" a capital bill for consideration by the full Legislature is summarized in Volume III.

Aging and Long-Term Care Services Department. The ALTSD received capital outlay requests totaling \$28.9 million from programs for seniors throughout the state. Based on formal presentations, review of the applications, and site visits, the ALTSD assigned a rating of critical, high, or moderate to the projects. The ALTSD and area agencies on aging recommended nearly \$9 million for code compliance, renovations, specialized vehicles, and other equipment statewide. The LFC staff recommends the \$9 million prioritized by ALTSD. The ALTSD also rated 11 new construction or renovation

projects requiring more than \$19 million as “critical,” but did not recommend funding. According to the ALTSD, the reason for not recommending the critical construction was not based on need, but rather to keep the requested amount low in a year without general obligation bond capacity.

Higher Education Department and Special Schools. The HED held hearings in Albuquerque, Las Cruces, Las Vegas, Roswell, and Santa Fe where all secondary institutions, the three special schools, the Institute of American Indian Arts, Southwestern Indian Polytechnic Institute, Navajo Technical College, and Dine College presented requests. Institutions requested \$286.5 million for infrastructure projects statewide. The HED staff recommends \$56.8 million for 15 projects. The LFC staff recommends \$40.2 million, including \$24.8 million to restore funds decreased in the 2012 GOB issue to keep the property tax levy flat. The funds will allow construction and renovations to move forward without delay, including funds for “critical” health and safety issues, such as roofs and fire suppression, projects with considerable matching funds, and the plan and design of incomplete phases.

Special Schools. The New Mexico School for the Deaf requested \$8.9 million to continue addressing infrastructure deficiencies, consolidate and renovate the museum and library, and renovate the basement of Dillon Hall for the Outreach and Early Intervention Program. The New Mexico School for the Blind and Visually Impaired requested \$9.4 million to address deficiencies and renovations campus-wide. Laws 2012, Chapter 53, amended the Public School Capital Outlay Act to include both schools in the standards-based program. According to the facility condition index, each building within the special schools’ campuses, or two-thirds of the facilities, are worse than the average condition of the schools in the state. The LFC staff recommends the projects be funded from the public school capital outlay fund, contingent on the approval by the Public School Capital Outlay Council (PSCOC) in the amounts that can reasonably be expended as determined by the council.

Public Education Department. The PED requested more than \$20 million for the replacement of 237 school buses and \$2.5 million for construction or renovation of prekindergarten classrooms. The PED owns and operates 873 buses statewide. In accordance with Section 22-8-27, NMSA 1978, buses are required to be replaced every 12 years, especially those that are older with high mileage. The LFC staff recommends \$10 million to replace 117 school buses. Of the amount, the proposal includes \$3 million from the public school capital outlay fund, contingent on approval by the PSCOC.

Children, Youth and Family Department. The CYFD requested \$3.1 million to plan and design phase one of a 54-bed juvenile detention facility in Roswell and \$2 million for improvements to the Youth Diagnostic Development Center (YDDC) in Albuquerque. The LFC staff recommends \$2 million for the YDDC improvements.

CRITERIA FOR PRIORITIZING CAPITAL OUTLAY NEEDS

- Project will eliminate potential or actual health and safety hazards and liability issues.
- Project will address backlog of “deferred” maintenance and prevent deterioration of state-owned assets, including projects of cultural or historical significance.
- Project is necessary to comply with state or federal licensing, certification, or regulatory requirements.
- Request is included in state five-year capital improvement plan for projects ready to commence or require additional funding for completion.
- Investment provides future operating cost-savings with a reasonable expected rate of return.
- Project provides direct services to students, staff, or the general public.

Capital Outlay

LFC Staff Site Visits in 2012

- New Meadows Phase 1 (Las Vegas)
- Center for New Mexico Archaeology (Santa Fe)
- Los Luceros (Alcalde)
- John Paul Taylor Juvenile Facility (Las Cruces)
- Regional Aquatic Center (Las Cruces)
- State Police District Offices (Las Cruces and Las Vegas)
- New Mexico Military Institute (Roswell)
- New Student Union Complex and Trolley Bldg (NMHU - Las Vegas)
- Central Correctional Facility and Farm (Los Lunas)
- Western New Mexico Correctional Facility (Grants)
- Los Lunas Center for Recovery and Wellness (Human Services Department Substance Abuse Treatment and Training Center)

New Mexico Corrections Department. The NMCD requested \$25.2 million to complete heating, ventilation, and air conditioning (HVAC) systems at Central and Western correctional facilities and for renovations, repairs, and security upgrades statewide. The LFC staff recommends \$4.8 million to complete HVAC systems at Central and Western correctional facilities, \$7.4 million for infrastructure renovations and equipment, and \$2.7 million for security upgrades statewide. An additional \$400 thousand is proposed to develop a facility master plan.

Cultural Affairs Department. The department requested \$17.5 million for the preservation and maintenance of museums and monuments statewide, projects requiring completion, and equipment. The LFC staff recommends \$5 million to address major health and safety deficiencies, repairs, and other renovations at museums and state monuments statewide and \$7 million to complete critical unfinished projects, including furniture, equipment, and exhibits prioritized by the department.

New Mexico Environment Department. The NMED requested \$6.7 million as state matching funds for a federal Super Fund site and the clean water state revolving loan fund. The NMED anticipates the 20 percent state match will generate a \$7 million federal grant for the clean water state revolving fund (Chapter 76, Article 6A, NMSA 1978). The NMED also requested \$2.5 million for a new “healthy river” initiative, intended to enhance the riparian areas along New Mexico rivers and streams, and for a liquid waste disposal system assistance fund. The LFC staff recommends \$1.4 million funded from the public project revolving loan fund. The state and federal funds are used to improve water quality and wastewater facilities statewide.

Department of Health. The DOH requested \$52.5 million to address patient health and safety issues and critical infrastructure and to construct phase three of the Meadows long-term care facility in Las Vegas. The DOH facilities have been cited for code violations by the Joint Commission (an independent, not-for-profit organization), the state Fire Marshal, and the state Health Facility Licensing and Certification Bureau. The LFC staff recommends \$14.6 million for the following projects: \$4.5 million to address patient health and safety and deficiency issues; \$900 thousand to furnish and equip phase two of the Meadows long-term care facility; \$2.5 million for demolition and site preparation for phase three of the Meadows project; \$450 thousand to purchase equipment for the State Scientific Laboratory Division; \$5 million for upgrades at the Behavioral Health Institute in Las Vegas, the New Mexico State Veterans’ Home in Truth or Consequences, and Sequoyah facility in Albuquerque; and \$1.3 million to develop a facility master plan and to assess other campus needs.

Department of Public Safety. The DPS requested \$8.2 million to complete renovation of the Law Enforcement Academy dormitories, to complete renovation and construction of the Española state police district office, to construct a secondary road at the new Las Vegas state police district office, for pre-design and master planning, and for other renovations statewide. The LFC staff recommends \$5.3 million to complete the projects in progress and \$300 thousand for a facilities master plan.

General Services Department. The GSD requested \$20.8 million to address statewide repairs and major renovations; for demolition and decommission of unused structures; and for planning, assessment, pre-design and facility master plans. The LFC staff recommends \$11 million for the purpose of preserving and restoring state facilities statewide; \$3 million for ventilation modifications of the three-year-old laboratory services building in Albuquerque; \$4 million for demolition of structures deemed unsafe and unusable; and \$3.6 million for master plans, planning, and pre-design for facilities under the jurisdiction of the Property Control Division (PCD).

Capitol Buildings Planning Commission. The Capitol Buildings Planning Commission (CBPC), in partnership with the PCD of the General Services Department, continues to review the *Capital Master Plan* to determine the best use of state properties owned and leased in Santa Fe, Albuquerque, Los Lunas, and Las Cruces.

The CBPC master planning consultants proposed external contractors perform building condition assessments of all state-owned facilities. The consultants further recommended the PCD manage the process and create a committee comprising of representatives of major agencies occupying the facilities for input and monitoring of the progress, while the CBPC provides general oversight and review of the outcomes. The PCD will identify the building condition and prepare a prioritized list of repairs needed and associated cost, identify current use and office capacity and integrate the collected data into the state building inventory database, and establish a reliable source of funds for capital building renewal.

OTHER ISSUES

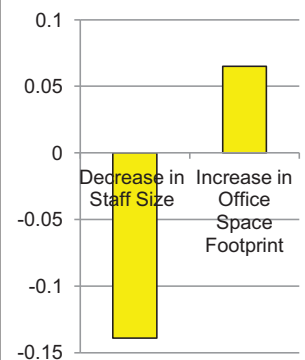
Review of Space Utilization. The state of New Mexico spends more than \$47 million annually to lease office space for state agencies under GSD control. While the number of state employees decreased by nearly 14 percent over the past four years, the state increased the overall office footprint by 6.5 percent. Increases in state-owned buildings outpaced decreases in leased office space. To better align the state's uses and needs, more should be done to improve statewide planning, compliance with space standards, and office consolidation.

Building Use Fees. The GSD secretary is required to establish a schedule of building use fees for state agencies occupying state-

PROJECTS COMPLETED IN 2012

- Meadows Long-Term Care Facility, Phase I, in Las Vegas
- Green house and security installations at J. Paul Taylor juvenile facility in Las Cruces
- Heating, ventilation, and air conditioning systems at Southern Correctional Facility in Las Cruces and Central New Mexico Correctional Facility in Los Lunas

Change in FTE and Office Footprint from 2008 to 2011



Source: CBPC and LFC

Capital Outlay

Consolidation Savings By Agency October 2011 - August 2012 (in thousands)		
Agency	Annual Savings	Total Savings Over Term of Lease
Gaming Control Board	\$152	\$2,413
Public Defender Department	\$124	\$2,184
Human Services Department	\$211	\$1,188
Department of Workforce Solutions	\$76	\$811
Children, Youth and Families Department	\$34	\$673
Public Education Department	\$210	\$484
Department of Vocational Rehabilitation	\$254	\$416
Higher Education Department	\$45	\$339
Department of Corrections	\$11	\$163
Environment Department	\$19	\$120
Public Employees Retirement Association	\$7	\$41
NM Educators Retirement Board	\$4	\$36
Aging and Long Term Services Department	\$16	\$34
Attorney General Office	\$4	\$29
Martin Luther King Jr. Commission	\$10	\$10
Board of Examiners for Architects	\$4	\$8
Department of Health	\$3	\$6
Total	\$1,184	\$8,954

Source: PCD

owned buildings as established by the Property Control Act, Section 15-3B-19 NMSA 1978. This legislation--sponsored by the LFC, passed in 1996 and amended in 2001--intended for the public buildings repair fund to be used for operating expenses for the PCD and the necessary repair, renovation and purchase of physical plant equipment of public buildings under the jurisdiction of the division.

Executive Order 2012-023. The CBPC promoted facilities planning legislation for the past two sessions. While the bill was twice vetoed by the governor, executive order 2012-023 requires all state agencies to submit five-year facilities master plans to the Department of Finance and Administration by July 1 of each year. The GSD will prescribe the form and content of the plans and require agencies to include lease planning as a component. This planning will advance the CBPC goal of producing a consolidated plan for the entire state.

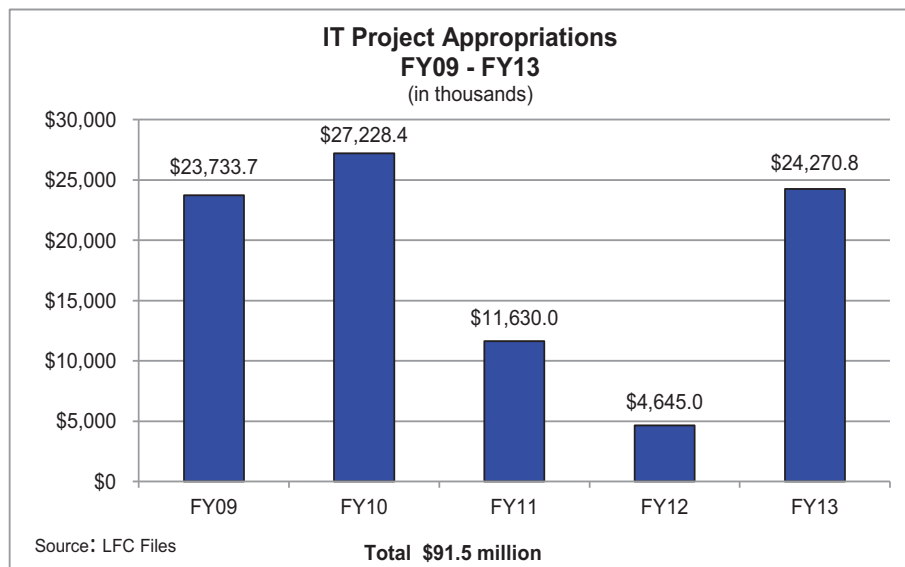
The Super Complex. The key project known as the health and human services building would achieve significant savings to the state by relocating staff from leased space to a super-complex, where numerous health-related agencies would be consolidated. The plan would provide office space for the DOH, the HSD, the CYFD, and the ALTSD. On December 4, 2012, the governor approved the fifth amendment for the purchase and land trade agreement between the state and Paseo Nuevo, Ltd. Company for the Las Soleras property. The property is the current site under review for construction of the proposed super complex.

Consolidating Office Space. In the past year alone, the lease costs decreased approximately \$1.2 million for an estimated total savings of \$8.9 million over the life of 28 leases. In the short term, the Department of Transportation, the HSD, and the Public Education Departments saved the most in leased costs. The Gaming Control Board, the Public Defender Department, and the HSD achieved the greatest long-term savings.

Comprehensive Facility Management Program. The Building Services Division (BSD) of GSD started operations of a new Work Control Center (WCC) in August 2012. The center is an initiative to establish a comprehensive facility management program using a software application (AssetWorks, Inc., AiM software) intended to centralize all maintenance and repairs to state buildings under the jurisdiction of the PCD. The staff of BSD will be trained on the application to track state assets and maintain a history of building maintenance. The first phase will cover buildings in Santa Fe and will eventually encompass state-owned facilities throughout the state.

Information technology (IT) can help governments gain efficiencies, save taxpayer money, and improve services. However, large IT projects are complex, expensive, and have a high rate of failure. New Mexico must make critical investments to avert failure of its aging systems and to benefit from the innovations technology can bring. However, it must do so in a strategic manner, with strong IT governance. In recent years these elements have been lacking in New Mexico, most notably with the absence of a functioning IT Commission as required by statute.

Information Technology Investments. During the past five years, New Mexico has appropriated more than \$91 million for IT projects. Fiscal year 2009 fiscal year 2012 also included severance tax bond (capital outlay) appropriations to IT projects monitored by the Department of Information Technology (DoIT).



Few IT projects are completed without unexpected changes, increased costs, or extended project schedules. In 2009, Gartner, a leading information technology research and advisory company, reported as many as 25 percent of large IT projects fail, and an additional 40 percent are not delivered on time, within budget, or with all expected functionality and features.

In New Mexico, the Human Services Department's (HSD) IT project to replace its benefit delivery system for public assistance programs it (called SSALSA) was initially funded in 2001. However, by the following year, and after more than \$20 million in federal and general fund expenditures, the project failed. In late 2010, the department started over with a new project (ASPEN) and reports the \$106 million benefits IT system is making good progress. In May 2011, the Motor Vehicle Division (MVD) of the Taxation and Revenue Department canceled its contract for a motor vehicle IT project after spending about \$5.4 million to replace the 20-year-old driver and vehicle modules. The department recently completed a request for information and a series of "visioning sessions;" the MVD expects to release a new request for proposals for the project by the beginning of calendar year 2013.

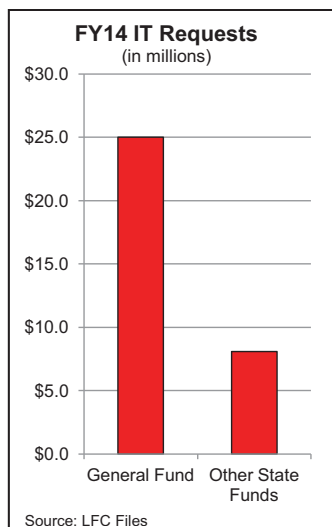
FY14 State Agency IT Request (in thousands)

AOC	\$828.0
TRD	\$6,679.0
GSD	\$3,359.0
PERA	\$2,800.0
SCPR	\$822.4
SOS	\$1,215.0
STO	\$1,950.0
RLD	\$213.9
PRC	\$1,554.0
GCB	\$2,500.0
OSE	\$400.0
DOH	\$750.0
CYFD	\$3,454.2
DPS	\$6,600.0
Total	\$33,125.5

Source: LFC Analysis

The Taxation and Revenue Department canceled its contract for a motor vehicle IT project after spending about \$5.4 million to replace the 20-year-old driver and vehicle modules.

Information Technology



The DoIT recommended \$18.9 million from all funding sources, with \$15 million from general fund revenues.

IT Governance and Oversight. Although statutorily required to meet at least quarterly, the New Mexico IT Commission has not met since November 2010. The legislative intent of the commission was for an independent body, representing a range of stakeholders, to act in an oversight capacity to guide a strategic IT plan for the state. The LFC recommends the commission resume the required meetings to provide the state's executive and legislative leadership with information to make informed IT funding recommendations.

The IT Commission is required to review and approve the state IT plan, which includes identifying key IT initiatives for the state and key projects for state agencies. Other important responsibilities include approving guidelines for mediation of disputes between executive agencies and the secretary of DoIT as chief information officer. Finally, the DoIT is required by New Mexico Administrative Code to provide its final recommendation for IT funding to the IT Commission for review.

FY14 Information Technology Recommendations. Agencies submitted 24 information technology (IT) funding requests from 14 state agencies totaling \$33 million, of which \$25.7 million was for general fund revenues. The two largest requests were from the Taxation and Revenue Department for the reengineering of MVD driver and vehicle information technology project (\$6.6 million) and the Children, Youth, and Families Department for EPICS Phase III, Service Management (\$3.5 million).

The LFC recommendation is \$16.6 million from all sources, with \$13.2 million from the general fund and \$3.4 million from other state funds. Priority was given to projects underway, of critical need, and which were accompanied by a sound business case.

Finally, The Human Services Department (HSD) and Taxation and Revenue Department (TRD) requested extensions of time to expend appropriations from Laws 2009, previously extended by Laws 2011. The Workforce Solutions Department (WSD) and the Education Retirement Board (ERB) requested extensions of time to expend the appropriations from the Laws of 2010 and Laws 2011, respectively. The LFC recommends the extension of time for HSD through FY15 and TRD, WSD and ERB through end of FY14.

The complete list of requests and recommendations are listed in Table 6.

Events in the last few years highlight the need for improving management of the state's permanent and pension funds. While legislative efforts targeting key issues have been successful – such as increasing transparency of third-party marketers and improving governance of the State Investment Council (SIC) – more remains to be done to optimize returns at an acceptable level of risk and restore public trust that funds are effectively managed. The investment agencies should carefully assess the magnitude of management fees and assess their effect on returns. The boards of the agencies should play an active role in developing agency budgets.

Performance Overview. Investment performance slowed in FY12 after double-digit percentage gains in both FY10 and FY11. Aggregate fund value decreased by \$600 million, or 1.7 percent, including contributions and distributions as well as investment returns.

Asset Values for Year Ending June 30, 2012 (in millions of dollars)					
Annual	ERB	PERA	LGPF	STPF	TOTAL
Asset Values	\$ 9,417.0	\$11,744.0	\$10,727.0	\$ 3,767.0	\$ 35,655.0
Value Change	\$ (96.0)	\$ (401.0)	\$ 38.4	\$ (173.8)	\$ (632.4)
Percent Change	-1.0%	-3.3%	0.4%	-4.4%	-1.7%

Source: Investment Agency Reports

The funds still have ground to recover from losses sustained during the 2008-2009 financial market meltdown before reclaiming the aggregate high of \$38.6 billion attained in 2007. Restoring values to these all-time highs by the end of FY13 would require growth of more than 8.25 percent.

Impact on Long-Term Returns. Many experts question the rate-of-return assumptions for public plans in light of new market dynamics, lower inflation, and lackluster economic forecasts. The pension funds and permanent funds have decreased their projected annualized returns from 8 percent and 8.5 percent to 7.75 percent and 7.5 percent, respectively; however, 10-year returns missed the revised target level. The market meltdowns during 2001-2003 and 2008-2009 continue to suppress long-term returns.

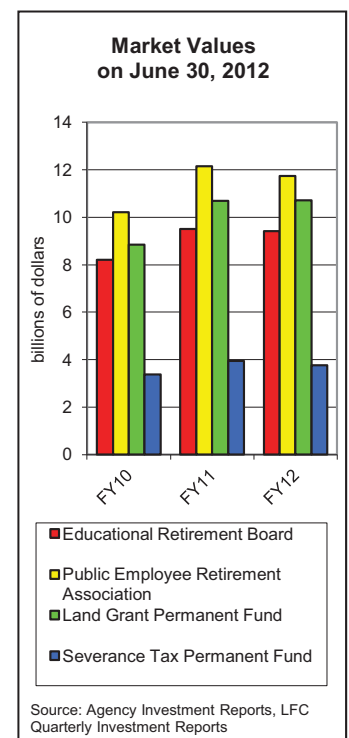
One-Year, Three-Year, Five-Year, and 10-Year Returns As of June 30, 2012

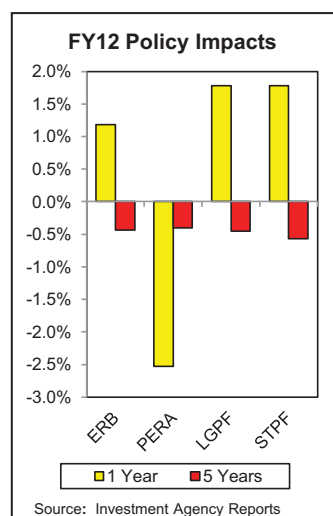
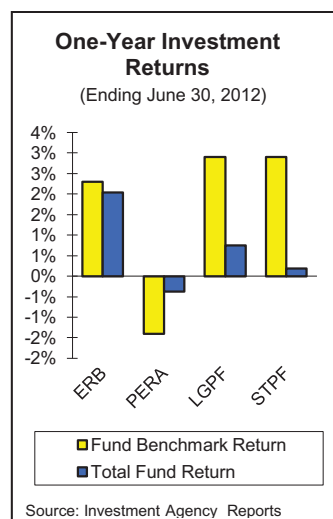
Fund	One-Year	Three-Year	Five-Year	10-Year
ERB	2.03%	13.03%	2.29%	6.80%
PERA	-0.38%	11.96%	-0.30%	5.51%
LGPF	0.75%	12.17%	1.11%	5.99%
STPF	0.19%	11.28%	0.13%	5.37%

Source: Investment Agency Reports

A portion of the severance tax permanent fund (STPF) is invested in economically targeted investments that yield below-market returns; the land grant permanent fund (LGPF) does not have economically targeted investments in its portfolio and is a better gauge of SIC's performance.

While the New Mexico Constitution protects vested pensions as a property right, Section 22 (E) also specifies the following caveat: *Nothing in this section shall be construed to prohibit modifications to retirement plans that enhance or preserve the actuarial soundness of an affected trust fund or individual retirement plan.*





The difference in return between the two funds is a rough approximation of the opportunity cost of these initiatives. For the year ending June 30, 2012, economically targeted investments cost the state approximately \$22 million in foregone income.

Peer Comparisons. Comparative measures showing how funds perform within peer groups are another way to gauge outcomes. The table below shows peer total return rankings for the state's largest funds for the one-year, three-year, five-year, and 10-year periods. A lower rank denotes better performance when compared with other funds. To compare the three funds on the same basis, analysts use the Wilshire Trust Universe Comparison Service (TUCS), a benchmark for the performance and allocation of institutional assets that includes approximately 64 public funds with more than \$1 billion in assets.

TUCS Universe Rankings				
Fund	One-Year	Three-Year	Five-Year	Ten-Year
ERB	25	10	36	39
PERA	89	40	100	95
LGPF	59	30	76	83
STPF	71	68	84	83

The ERB's one-year and three-year ranks are in the top quarter, and contribute to an above-average long-term rank as well. The other funds ranked well in the last quartile of their peer groups for the five- and 10-year periods. A favorable three-year rank of 30 was not sufficient to lower the SIC's long-term rankings for the LGPF. The funds' poor longer-term rankings indicate that over this period the best performing funds had either differing plan structures that produced higher returns under various market conditions, or better managers.

Performance versus Internal Composite Benchmarks. Comparing funds with internal benchmarks also yields insight into how funds are managed. During FY12, the ERB fund missed its benchmark by 27 basis points. The LGPF and STPF missed their benchmarks by 215 and 271 basis points, respectively. The PERA was the only agency that outperformed its policy index in FY12, returning 103 basis points (1.03 percent) more.

Policy Effect. A fund can have a long-term policy allocation (known as the "policy index") target that has a more or less aggressive proportion of risky assets, such as stocks. For example, risky domestic assets, such as U.S. stocks (equities), performed best in the first quarter of 2012. Accordingly, an index that has more domestic equities should outperform the average. Measured in isolation, such a change in performance is known as the "policy effect," and it is an essential responsibility of the fund's trustees. The most appropriate measurement of a policy allocation benchmark is comparison with a defined peer group. The funds' policy effect is measured by comparing the returns of the funds' policy indices with the TUCS median fund actual return. The TUCS median return is gross of the allocation and manager effects, and

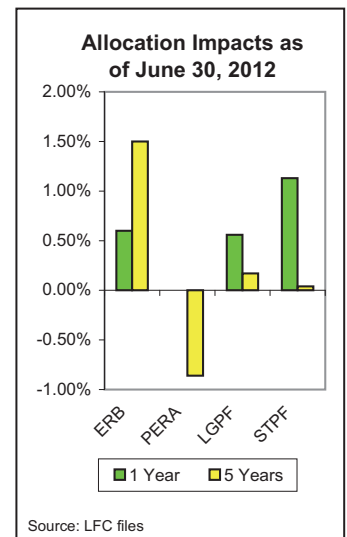
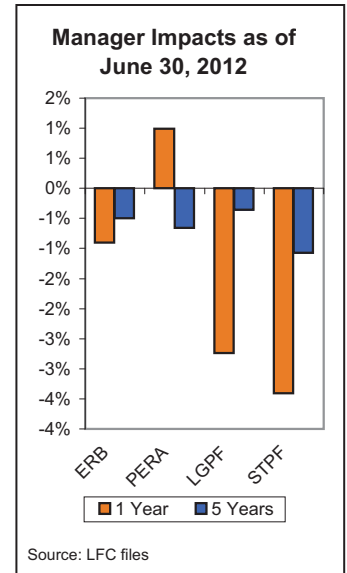
the measure is therefore a rough estimate of the policy effect. In FY12, the policy effect for ERB indicates its policy index outperformed the TUCS median fund by 1.18 percent. The policy indices of the SIC's investment funds outperformed the median by 1.78 percent. The PERA had the only negative policy effect for the year, with its policy index earning 2.53 percents less than the TUCS median. The five-year policy effect for all the funds is negative, with the magnitude of the effects ranging from -44 basis points to -57 basis points.

Manager Performance. Value can be added or subtracted from a fund through the use of active management. A fund can buy a security, such as the institutional version of the Standard & Poor's Depository Receipts commonly used by retail investors. These securities are composed of a relatively fixed basket of securities that track the S&P 500 index. Alternatively, the fund can employ a manager who will trade individual securities given the manager's attitude about the prospects of individual stocks. This is known as "active" investing. The difference between the return of the index and the portfolio of the active manager is known as the "manager effect." In FY12 the PERA's managers delivered 99 basis points (bps) of added value, gross of fees. The ERB's managers underperformed by 100 bps, while the SIC's managers lost 274 bps investing the LGPF. Five-year manager effects are negative for all agencies, though the magnitude of the effect is smaller.

Active investment management leads the investment agencies to incur management fees, an essential component of managing the permanent funds. However, the large amounts of public funds being spent on fees requires that agencies to provide diligent oversight to ensure the fees are used cost-effectively.

The SIC notes it is in the process of replacing its external managers as a result of its portfolio restructuring. In addition, the agency is transitioning to more external management of its portfolio, which the SIC explains is due to understaffed in-house management. The agency is reducing the size of the in-house portfolio from \$4 billion to \$400 million.

Allocation Effect. A fund's return can be affected by tactically shifting assets away from the proportions called for by policy, and the allocation impact reflects how such deviations from target asset allocations add or detract from performance. Tactical investment authority granted to the chief investment officer is dictated by investment policy, resulting in differing degrees of authority delegated for each fund. Much of the allocation impact for the trailing 12 months is explained by over- or under-weighting equities. The SIC benefits from a slight underweight in U.S. equities and an overweight in fixed income assets, contributing to an FY12 allocation effect of 56 bps. The ERB reports an FY12 allocation effect of 60 bps. The PERA's annual allocation effect was 0 percent due to offsetting deviations from policy in international equities, fixed income, and absolute return assets.



PERFORMANCE REPORTS

Accountability in Government

Performance-based budgeting is playing an increasing role in making government more accountable and effective. In recent years, as economic conditions squeezed budgets, performance data helped to prioritize programs and allocate limited resources. Now, performance data is being used to assess possible restoration of funding cuts made during austere times.

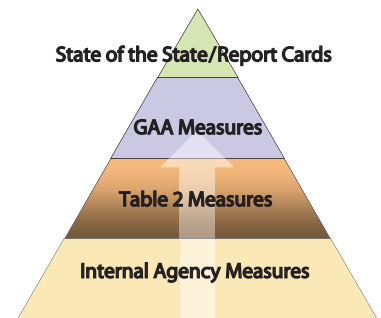
The Accountability in Government Act (AGA) traded budget flexibility for information about how state agencies economically, efficiently, and effectively carry out their responsibilities and provide services. Prior to the AGA, appropriations to state agencies were tightly controlled by the Legislature with attention paid to individual budget line items and incremental spending of salaries, office supplies, travel, etc. After the AGA, the focus switched to results as measured by performance (inputs, outputs, outcomes, etc).

Report Cards. To facilitate reviews of agency performance, the LFC developed a dashboard report, a report card, to add greater emphasis and clarity to the reporting process, stimulate discussion on agency performance, and focus budget discussion on results. Criteria for rating performance were established with consideration for improvement or decline in performance with some deference to economic conditions, austerity measures, etc. In general, green ratings indicate performance achievement, red ratings are not necessarily a sign of failure but do indicate a problem in the agency's performance or the validity of the measure. Yellow ratings highlight a narrowly missed target, significantly improved or a slightly lower level of performance. Performance criteria are reviewed on the following page. Although the report cards reveal good performance results, there is room for improvement – in reporting results, measuring the right things, benchmarking to national and state data, developing corrective action plans, and making a stronger connection to agency budgets. Performance outcomes indicate the need for more action plans and strategic planning that improve outcomes.

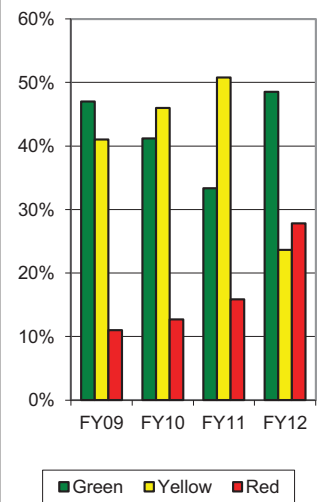
FY12 Performance and Future Outlook. Given spending reductions of prior years, some unmet needs remain and a higher level of performance outcomes is needed. FY12 report cards show an increase in red ratings for outcome measures that indicate a need to address deteriorating roads, reading and math proficiency in schools, low graduation rates, lengthy waiting lists for services, etc. The results on a number of efficiency measures indicate the negative impact of high agency staff vacancy rates: slower processing and longer wait times and increased caseloads and backlogs. However, for FY13 most agencies requested flat budgets, indicating a need for more data-driven decision making to maximize limited resources.

In accordance with the provisions of the AGA, the ability of LFC and its staff to improve measures is limited, as fundamental authority over performance reporting resides in the executive. The Department of Finance and Administration (DFA) approves new measures and deletes others, and the LFC's role is that of consultation. For FY14, DFA made limited changes to improve the process of reporting meaningful and useful data.

Performance Measure Hierarchy



Report Card Program Rating Performance Summary FY09-FY12



Source: LFC Files

PERFORMANCE REPORT CARD CRITERIA
LEGISLATIVE FINANCE COMMITTEE

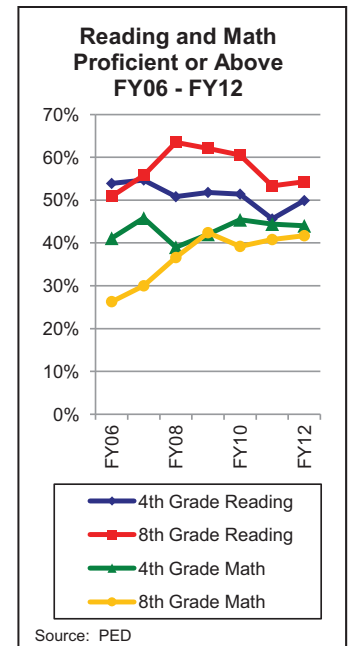
<p>Process</p> <ul style="list-style-type: none"> • Data is reliable • Data collection method is transparent • Measure gauges the core function of the program or relates to significant budget expenditures • Performance measure is tied to agency strategic and mission objectives • Performance measure is an indicator of progress in meeting annual performance target, if applicable <p>Progress</p> <ul style="list-style-type: none"> • Agency met, or is on track to meet, annual target • Action plan is in place to improve performance <p>Management</p> <ul style="list-style-type: none"> • Agency management staff use performance data for internal evaluations 	<p>Process</p> <ul style="list-style-type: none"> • Data is questionable • Data collection method is unclear • Measure does not gauge the core function of the program or does not relate to significant budget expenditures • Performance measure is not closely tied to strategic and mission objectives • Performance measure is a questionable indicator of progress in meeting annual performance target, if applicable <p>Progress</p> <ul style="list-style-type: none"> • Agency is behind target or is behind in meeting annual target • A clear and achievable action plan is in place to reach goal <p>Management</p> <ul style="list-style-type: none"> • Agency management staff does not use performance data for internal evaluations 	<p>Process</p> <ul style="list-style-type: none"> • Data is unreliable • Data collection method is not provided • Measure does not gauge the core function of the program or does not relate to significant budget expenditures • Performance measure is not related to strategic and mission objectives • Performance measure is a poor indicator of progress in meeting annual performance target, if applicable • Agency failed to report on performance measure and data should be available <p>Progress</p> <ul style="list-style-type: none"> • Agency failed, or is likely to fail, to meet annual target • No action plan is in place for improvement <p>Management</p> <ul style="list-style-type: none"> • Agency management staff does not use performance data for internal evaluations

The strategic elements considered to evaluate the effectiveness of public schools are student achievement, teacher quality, and student persistence. Between FY06 and FY12, student performance as measured by the percent of students scoring proficient or above on the New Mexico Standards-Based Assessment (NMSBA) increased 10.4 percentage points in math but decreased 6 percentage points in reading. Statewide data from the FY12 assessment shows modest improvements of 1 percentage point in math and reading compared with FY11. Based on FY12 assessment data, 49.2 percent of students scored below proficient in reading and 57.1 percent of students scored below proficient in math. While overall proficiency rates are showing incremental increases, proficiency rates for certain grades and subjects are below FY11 rates. For example, third graders reading at or above proficiency decreased 0.5 percentage points from FY11 and have decreased 5 percentage points since FY10.

The Public Education Department (PED) notes a decrease from 67.3 percent to 63 percent in FY11's four-year cohort graduation rate. The performance of subgroups (students with disabilities, the economically disadvantaged, Caucasians, American Indians, African Americans, etc.) did not improve over FY10. Part of the decrease is attributed to a new calculation that captures students not historically included in the calculation; however, it is unclear what portion of the decrease is a result of the new calculation.

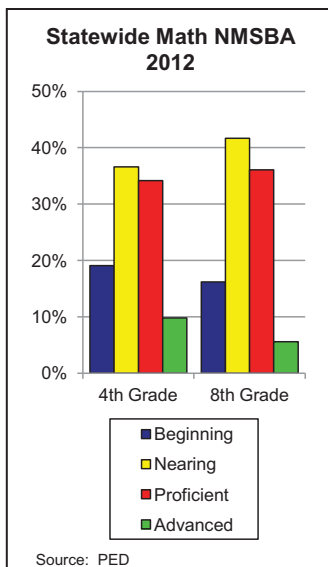
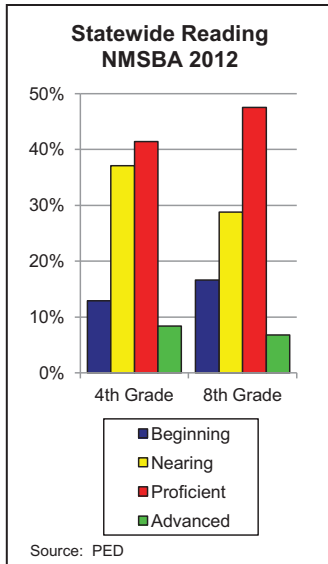
For FY12, the PED did not calculate adequate yearly progress (AYP); however, the department estimates approximately 98 percent, or 811 schools, would have failed to make AYP had it been calculated. The state implemented a new accountability system that gives schools a letter grade between A and F based largely on student performance on the NMSBA, with small values awarded for other things such as student surveys, attendance, and school encouragement for involving students and parents in education. The first final grades issued included 40 schools receiving an A, 203 receiving a B, 275 receiving a C, 249 receiving a D, and 64 receiving an F. Compared with preliminary FY11 school grades, approximately 33 percent of school grades decreased in FY12.

Performance measures for public school support provide a snapshot of student performance generally when data is available after the end of the school year. Little or no consistent data is available through the year on student achievement and performance for state policymakers. For FY13, the Legislature appropriated \$2.5 million for short-cycle assessment for fourth through 10th-grade students. To be meaningful, implementation should consider mandatory reporting to the PED at least three times a year, allowing policymakers access to data more than once annually. Additional benefits to intermediate reporting of student academic performance include (1) providing teachers the data necessary to alter instructional practices throughout the year to address student needs and (2) assisting the department in determining how to better support schools.



Fiscal year 2011's cohort graduation rate includes freshman entering high school in 2007 and graduating in 2011.

Public Schools



Research clearly demonstrates the importance of teachers in student learning. Despite a “highly qualified” teacher work force, improvement in student achievement is progressing slowly. The executive has proposed reforming the state’s teacher evaluation system to measure the effect teachers have on student learning as measured primarily by student growth. Since 2010, the PED indicated the changes proposed require legislation; however, the federal government granted the state a waiver from certain federal No Child Left Behind Act provisions in exchange for implementation of an overhauled teacher and school leader evaluation system. To assist in implementation of a new evaluation system, the Legislature allocated \$1 million to the PED for a system based on student achievement growth. The PED promulgated regulations for a new evaluation system based on the following: 50 percent on student growth, 25 percent on multiple observations, and 25 percent on multiple measures. Data should be collected from public schools annually to allow districts and policymakers to address and improve school personnel policies concerning professional development, promotion, compensation, and tenure.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of fourth-grade students who achieve proficiency or above on standards-based assessments in reading	51.4%	46.5%	78%	49.9%	Y
Percent of eighth-grade students who achieve proficiency or above on standards-based assessments in reading	60.5%	53.3%	76%	54.3%	R
Percent of fourth-grade students who achieve proficiency or above on standards-based assessments in mathematics	45.4%	44.4%	77%	44.0%	R
Percent of eighth-grade students who achieve proficiency or above on standards-based assessments in mathematics	39.2%	40.8%	74%	41.7%	Y
Percent of recent New Mexico high school graduates who take remedial courses in higher education at two-year and four-year schools	47.1%	46.2%	40%	n/a	n/a
Current year’s cohort graduation rate using four-year cumulative method	67.3%	63%	75%	n/a	n/a
Overall Program Rating					R

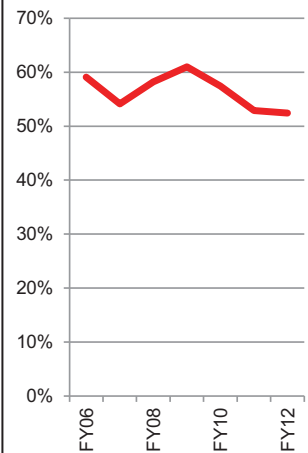
Department Operations. The PED provides program and fiscal oversight to public schools to ensure accountability for 43 percent of the state budget. Legislative staff evaluations highlighted insufficient department administration and oversight of districts and charters. Recognizing the need for robust oversight of public schools, the PED indicates it corrected 95 percent of the findings identified in the LFC school transportation evaluation. The department is also following up

on a joint LFC and Legislative Education Study Committee (LESC) staff evaluation by participating with a stakeholder-led workgroup to revise the current public education funding formula to make it easier to administer, ensure increased accountability, and distribute public education funding more equitably. Additionally, the PED created an auditing and accounting function within the School Budget and Financial Analysis Bureau to examine and evaluate units claimed by school districts and charter schools in all categories.

Fiscal year 2012 measures provide limited measurement of progress made by the PED. The annual report provided by the department continues to exclude many of the approved FY12 measures related to the distribution of state appropriations. Other eliminated measures relate to customer satisfaction with the PED.

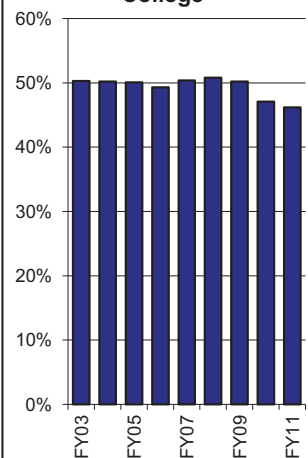
Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of teachers passing all strands of professional dossiers on the first submittal	71%	76%	75%	91.7%	G
Average processing time for school district budget adjustment requests, in days (flow-through funds)	18.2	19.4	7	12.5	Y
Percent of completion of the agreed audit schedule for the public education department internal audit section	0%	0%	100%	34.6%	Y
Number of elementary schools participating in the state-funded elementary school breakfast program	n/a	n/a	Explanatory	156	n/a
Number of eligible children served in state-funded prekindergarten	4,936	4,435	Explanatory	4,535	n/a
Overall Program Rating					Y

Third Grade Reading Proficient or Above FY06-FY12



Source: PED

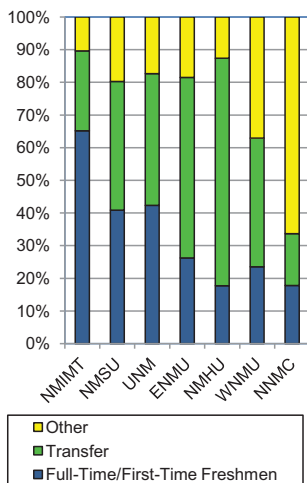
NM High School Graduates Taking Remedial Classes in College



Source: OEA, PED, HED

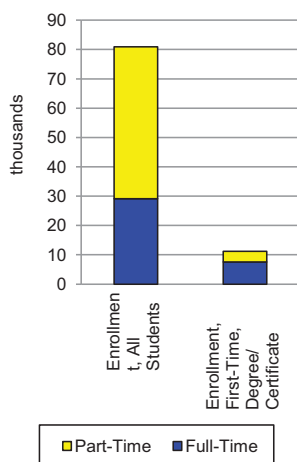
Higher Education

Profile of Baccalaureate Degree Recipients, 2011-2012 Academic Year



Source: 2012 Performance Report, Council of University Presidents

New Mexico Community College Enrollment, 2011-2012



Source: IPEDS, Fall 2011 Provisional Data

By statute, the Higher Education Department (HED) reports statewide data on student progress and institutional efforts. The data provide context, describing the student population and other institutional characteristics, and progress, noting the rate students achieve specific academic and employment milestones.

For the past few years, the committee has recommended a portion of the state appropriation for higher education be based on performance data. Fiscal year 2013 was the first time a portion of an agency's or institution's state appropriation directly resulted from evidence-based performance. For FY13, the revised instruction and general (I&G) funding formula allocated 5 percent of formula funding on variations of completed course enrollment and the number of certificates and degrees awarded. While work was not completed during the 2012 interim for the FY14 budget cycle, institutions and the HED developed mission-specific measures for inclusion in the I&G funding formula. The committee encourages further refinement of these measures during the 2013 interim.

Research and Comprehensive Universities. The Council of University President's *2012 Performance Effectiveness Report* notes research institutions graduated 40 percent to 60 percent of first-time, full-time college students and 25 percent to 40 percent transfer students; comprehensive institutions graduated 17 percent to 24 percent of traditional students and 40 percent to 70 percent of transfer students.

Even as student enrollment grew during the 2011-2012 academic year, the state's four-year institutions maintained a consistent performance level in both the fall-to-spring and fall-to-fall retention. In addition, the majority of institutions performed near, though slightly below, their self-identified peer institutions' levels of performance during both time periods.

First-Time, Full-Time (FT/FT), Degree-Seeking Students Retained from Fall-to-Fall	Fall 2009 to Fall 2010 Actual	Fall 2010 to Fall 2011 Actual	Fall 2011 to Fall 2012 Target	Fall 2011 to Fall 2012 Actual	Rating
UNM	78.3%	74.1%	77.6%	76.6%	Y
NMSU	74.8%	71%	72%	72%	G
NMIMT	73.7%	70.6%	72%	74.4%	G
ENMU	61.6%	63.9%	64%	62.5%	Y
NMHU	48.3	50.6%	53%	55.3%	G
WMNU	51.1%	50.4%	53%	55.1%	G
NNMC	55.4%	54.9%	66.5%	61%	Y
Overall Program Rating					G

Six-year graduation rates remain consistent for both the research and comprehensive sectors, with research institutions having higher graduation rates. Similar to retention, graduation rates reflect student profiles: more first-time, full-time students graduate within six years than transfers and other degree-seeking students.

Higher Education

All four-year institutions are reviewing ways to increase retention and graduation rates. For example, at New Mexico State University (NMSU), administrators are identifying students close to satisfying program requirements and providing assistance with course scheduling. At NMHU developmental coursework is being revamped to get students into college-level work earlier and the university is using ACT scores to better advise entering students; currently, the ACT is not an admissions requirement.

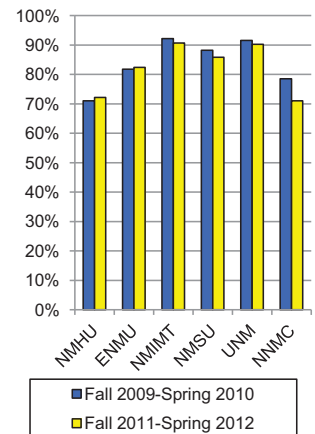
Six-Year Completion Rates for First-Time, Full-Time (FT/FT), Degree-Seeking Students	Fall 2004 to Summer 2010 Actual	Fall 2005 to Summer 2011 Actual	Fall 2006 to Summer 2012 Target	Fall 2006 to Summer 2012 Actual	Rating
UNM	44.4%	45.1%	46.5%	45.8%	Y
NMSU	44.5%	46.7%	47%	44%	R
NMIMT	44.5%	47.4%	45%	48.9%	G
ENMU	24.1%	23.7%	30%	28.6%	G
NMHU	18.9%	20.9%	20%	16.2%	R
WNMU	20.1%	17.1%	20%	19.1%	Y
NNMC	-	100%	25%	100%	G
Overall Program Rating					Y

Community Colleges. For FY12, most community colleges experienced growing enrollments of certificate- or degree-seeking students; frequently institutions with flat or declining fall-to-spring or fall-to-fall enrollments are experiencing strong local job markets.

The average fall-to-spring retention rate for branch colleges and independent colleges was 78.2 percent and 73.9 percent, respectively. At NMSU Alamogordo, staff turnover in the college's "early alert" student contact program affected fall-to-spring retention, and recent staff hires should improve student performance.

Fall to Spring Retention	Fall 2009 to Spring 2010 Actual	Fall 2010 to Spring 2011 Actual	Fall 2011 to Spring 2012 Target	Fall 2011 to Spring 2012 Actual	Rating
ENMU-Roswell	75.9%	76%	76%	74.4%	Y
ENMU-Ruidoso	67%	70.3%	65%	70.6%	G
NMSU-Alamogordo	77.1%	78.3%	79.5%	74.5%	R
NMSU-Carlsbad	69%	67.8%	71%	69.2%	Y
NMSU-Dona Ana	82.6%	81%	81%	79.9%	Y
NMSU-Grants	76%	78.4%	78%	77.4%	G
UNM-Gallup	81.4%	81.3%	83%	81.8%	Y
UNM-Los Alamos	82.9%	80%	79.5%	79.9%	G
UNM-Taos	76.7%	79.1%	70%	79.9%	G
UNM-Valencia	75.7%	73.6%	80%	76.9%	G
CNM CC	79.7%	81.1%	81%	82.2%	G
Clovis CC	70.6%	68.8%	79%	67.4%	Y

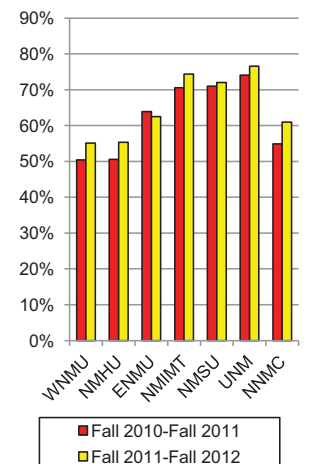
University Freshmen, Fall to Spring Retention



Note: WNMU does not report this data under AGA.

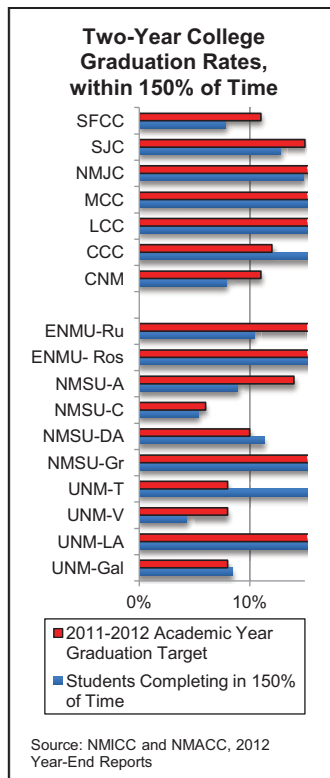
Source: 2012 Performance Report, Council of University Presidents

University Freshmen Fall-to-Fall Student Retention



Source: 2012 Performance Report, Council of University Presidents

Higher Education



The UNM Health Sciences Center reported performance highlights include

- Pass rates of 90 percent or above by candidates taking national exams for family nurse practice certification, pharmacy, and step exams in medical education.
- Lower numbers of inpatient discharges at UNM Hospital due to increasingly ill patients requiring longer stays.
- Sixty-seven percent of human poisoning exposures were treated at home after contacting the Office of Poison and Drug Information Center. This reflects national trends of declining calls to centers and increasing internet use for information.

Luna CC	75.4%	70.5%	80%	71%	Y
Mesalands CC	67.8%	69.8%	67.9%	71%	G
NM Jr. College	62%	70.8%	73.5%	76.8%	G
San Juan College	76.8%	80.3%	77%	80.9%	G
Santa Fe CC	79%	79%	79%	76.3%	Y
Overall Program Rating					G

Nationally, and in New Mexico, community colleges face the difficult challenge of getting mostly working adults who are part-time students through a certificate or degree program, or generally 150 percent of a program's duration. As many institutions fail to help students meet timely graduation targets, a number are looking to condense the delivery and teaching of developmental coursework, provide block or alternative scheduling to accommodate work schedules, and streamline program requirements. Others are ensuring students do not linger academically, improving student advising, and reducing undirected enrollment.

Higher Education Department. The HED administers the state's financial aid and other postsecondary programs and provides fiscal oversight of higher education institutions and three special high schools. The department's 2011 annual report highlighted the state's adult basic education program and college access activities, whereas the department's FY10 and FY11 financial audits filed in the second half of FY12 addressed the fiscal administration of financial aid and other programs. Despite the department's report of the high percent of recipients of state loan-for-service programs completing required service, the department's financial audits conclude these records cannot be verified for accuracy. As the department continues its efforts to correct and standardize recordkeeping for the state loan programs, reporting for all loan repayment programs should improve.

Policy Development and Institutional Financial Oversight and Student Financial Aid

	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of properly completed financial aid allocations and draw-downs processed within thirty days	100%	100%	100%	100%	G
Percent of properly completed capital infrastructure draws released to the state board of finance within thirty days of receipt from institutions	100%	95%	100%	100%	G
Percent of students who receive state loan-for-service funding who provided service after graduation	94%	92%	92.2%	92%	Y

Overall Programs Rating **Y**

Human Services Department

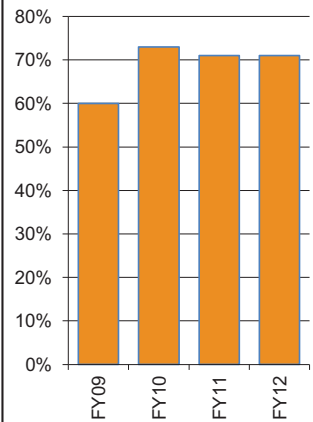
The department had strong performance in a number of areas in FY12, including the child support enforcement area and Medicaid visits for children. Room for improvement remains in other areas, such as participation in work-related activities by Temporary Assistance for Needy Families (TANF) recipients. The department is continuing to add measures targeting quality outcomes (focusing less on enrollment in programs) starting in FY13. New measures on the number of emergency room visits per member month and hospital readmissions within 30 days are being added to measure quality of care. However, efficiency and outcome measures are needed for key high-cost areas, such as pre-natal care and long-term care for the elderly and disabled.

Medical Assistance Program. The program reports strong performance in providing Medicaid physical health and dental services to older youth. Sixty-six percent of infants received the recommended six well-child visits in FY12. The program also did well on two quality of care measures, including asthma and diabetes. The HSD has added measures for FY13 on focusing on hospital emergency room visits and hospital readmissions. The overall performance rating was downgraded due to stagnation of child enrollment numbers in Medicaid during FY12.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
The percent of infants in Medicaid managed care who had six or more well-child visits with a primary care physician during the first fifteen months	n/a, New for FY12	n/a, New for FY12	65%	66%	G
The percent of children and youth in Medicaid managed care who had one or more well-child visits with a primary care physician during the measurement year	n/a, New for FY12	n/a, New for FY12	70%	86%	G
The percent of children two to twenty-one years of age enrolled in Medicaid managed care who had at least one dental visit during the measurement year	73%	71%	70%	71%	G
The percent of children in Medicaid managed care with persistent asthmas appropriately prescribed medication	n/a, New for FY12	n/a, New for FY12	70%	93%	G
Number of individuals who transition from nursing facilities placement to community-based services	n/a	154	150	n/a	

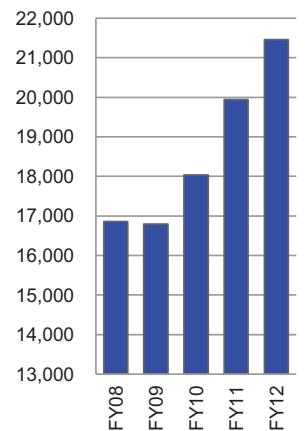
Overall Program Rating **Y**

**Medicaid Children
Receiving Annual
Dental Visit**



Source: HSD Quarterly Report

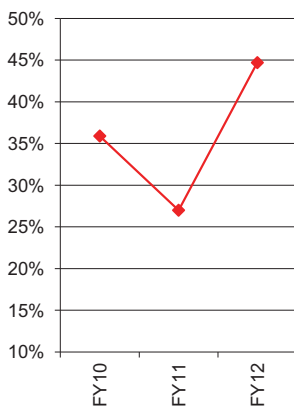
**Children Served in
Medicaid School-Based
Services**



Source: HSD Quarterly Report

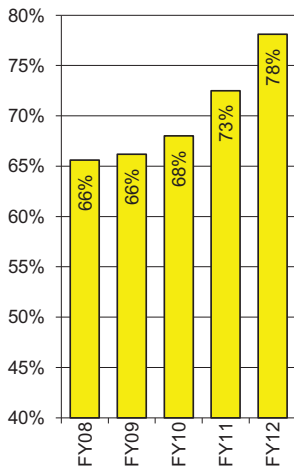
Human Services Department

TANF Clients Who Become Employed During the Year



Source: HSD Quarterly Report

Cases with Support Orders



Source: HSD Quarterly Reports

Income Support Program. Performance appears to be much better in FY12 for clients obtaining and retaining employment with new workforce contractor SL Start. However, the number of clients meeting the federally required work participation rates in the Temporary Assistance for Needy Families (TANF) program has not improved. The program is meeting all of its performance measures in the Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps), and SNAP enrollment continues to grow.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of TANF participants who retain a job for six or more months	46.5%	50%	55%	79%	G
Percent of TANF clients who obtain a job during the federal fiscal year	35.9%	27%	50%	44.7%	Y
Percent of TANF two-parent recipients meeting federally required work requirements	56.7%	50.9%	60%	49.3%	R
Percent of TANF recipients (all families) meeting federally required work requirements	42.4%	42.9%	50%	42.3%	R
Percent of children eligible for supplemental nutritional assistance program participating in the program at 130 percent of poverty level	85.7%	92.5%	82%	82%	G
Overall Program Rating					Y

Child Support Enforcement Program. Child support enforcement collections, acknowledged paternity, and cases with support orders all exceed the targets. The percent of child support collected dipped slightly to 56.6 percent, driven in part by the increased number of child support orders for multiple years of child support.

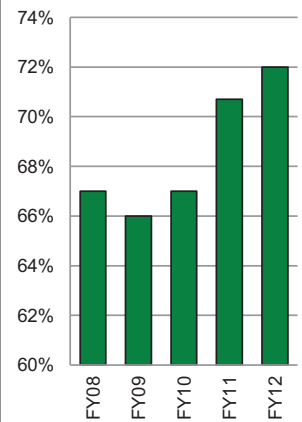
Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of children with paternity acknowledged or adjudicated	73.6%	88%	75%	99.4%	G
Total child support enforcement collections, in millions	\$115.4	\$123.5	\$111.0	\$129.6	G
Percent of child support owed that is collected	57.8%	57.4%	60%	56.6%	Y
Percent of cases with support orders	68%	72.5%	70%	78.1%	G
Overall Program Rating					G

Behavioral Health Collaborative

The 17-member Behavioral Health Purchasing Collaborative oversight body is charged with coordinating a statewide behavioral health system. However, coordination of a comprehensive system is hampered due to funding residing in several different agencies. Despite seven years of collaboration, significant gaps in service remain. Despite good performance results on collaborative measures, New Mexico ranks near the bottom for per-capita overdose rates, alcohol addiction, and suicides. The collaborative has minimal data on outcome-oriented measures, such as the rate of patient relapse. The collaborative continues to struggle to meet targets for providing follow-up services at seven days and 30 days, with only 36 percent of individuals receiving follow-up services at seven days and 55 percent at 30 days. The percentage of people receiving alcohol or drug abuse treatment showing improvement is trending upward. For FY13, a measure on the percentage increase in the number of pregnant females with substance abuse disorders receiving treatment from the collaborative is added.

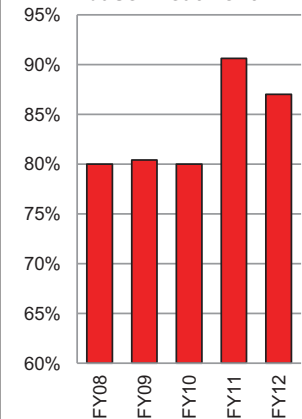
Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of people receiving substance abuse treatment who demonstrate improvement in the drug domains on the addiction severity index (ASI)	67%	70.7%	75%	72%	Y
Percent of people receiving substance abuse treatment who demonstrate improvement in the alcohol domain on the addiction severity index (ASI)	80%	90.6%	80%	87%	G
Percent of youth on probation served by the statewide entity	62.6%	47.8%	45%	40%	Y
Percent of individuals discharged from inpatient facilities who receive follow-up services at seven days	34.4%	34.8%	37%	36%	Y
Percent of individuals discharged from inpatient facilities who receive follow-up services at thirty days	51%	53.6%	56%	55%	Y
Percent of readmissions to same level of care or higher for children or youth discharged from residential treatment centers and inpatient care	6.5%	12.9%	8%	7.4%	G
Individuals served annually in substance abuse or mental health programs or both administered through the collaborative statewide entity contract	81,579	83,605	77,000	84,559	G
Overall Program Rating					Y

Clients Improving in Drug Substance Abuse Treatment



Source: Behavioral Health Collaborative

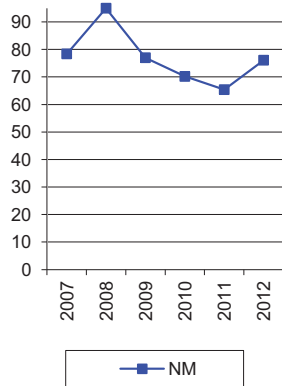
Clients Improving in Alcohol Substance Abuse Treatment



Source: Behavioral Health Collaborative

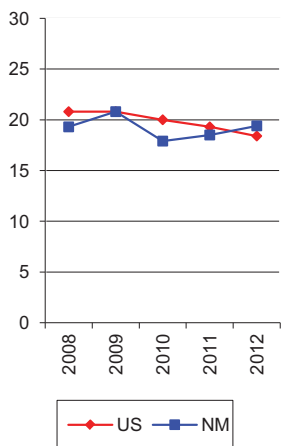
Department of Health

Percent of Preschooler Immunization Rates



Source: DOH

Percent of Adults Using Tobacco



Source: CDC

The Department of Health (DOH) reports on few performance measures directly relating to its strategic and mission objectives. The agency should consider adding outcome measures for low-birth-weight babies, teen pregnancies, suicide, substance abuse, hepatitis, tuberculosis, pertussis, childhood obesity, adult immunizations, and public health accreditation to align with the objectives contained in its strategic plan. The Public Health Program saw improvement in its infectious disease program dealing with HIV/AIDS services but saw declines in the Women, Infants and Children (WIC) Program and childhood immunizations. Inclusion of an Epidemiology and Response Program measure to gauge the readiness and capacity of the public healthcare system in New Mexico would be desirable. The Laboratory Services Program maintained staff vacancies in key positions, which diminished its performance. Additionally, state health facilities continue to provide too little data on patient health outcomes and hospitals' financial performance. The Developmental Disability Support Program could further enhance its cost-containment efforts, resulting in improved outcomes for average cost per client. Also, the number of developmental disabilities clients consistently remains below targeted levels. The agency should include more meaningful outcome measures, more national benchmark measures, and more efficiency measures denoting average cost per client for the Public Health, Developmental Disabilities Support, and Facilities Management programs.

Public Health Program. Annual immunization rates in New Mexico are improving although the rate did not meet the target. The number of people receiving WIC services is of concern as the caseloads have dropped by a third. In addition, the state is seeing a rise in tobacco usage (reported separately from the AGA) which may be correlated to funding reductions for tobacco prevention and cessation services. The number of visits to school-based health centers has steadily declined for the last three years.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of preschoolers fully immunized	70.2%	65.4%	81%	76.1%	Y
Number of eligible women, infant and children program participants receiving services	118,299	112,324	120,786	79,052	R
Number of calls to the 1-800-Quit Now tobacco cessation help line	12,367	11,944	13,748	9,642	R
Number of visits to agency funded school-based health centers	60,817	55,616	49,100	42,977	R
Overall Program Rating					R

Department of Health

Epidemiology and Response Program. The department indicates two facilities requested extensions to earn designation as trauma centers during FY12, in addition to another facility previously scheduled for designation in FY12. One additional facility, Sierra Vista Hospital, has indicated a desire to be designated in FY13.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of health emergency exercises conducted to assess and improve state and local capability	105	106	59	129	G
Number of designated trauma centers in the state	8	9	9	10	G
Overall Program Rating					G

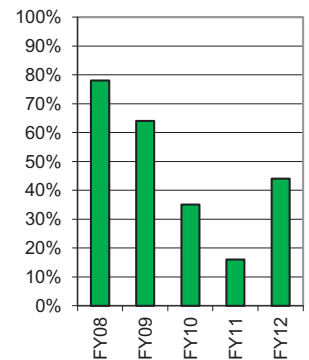
Laboratory Services Program. Results for the program were impacted by recruitment and staffing vacancies (26 percent historically), increased sample caseloads, and a large number of court testimonies requiring staff to be away from the office for extended periods. However, the budget was increased for the final quarters of FY12 and in the operating budget for FY13 in an effort to alleviate staff vacancies and improve performance.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of blood alcohol tests from driving-while-intoxicated cases analyzed and reported within ten business days	34.6%	16.3%	74%	44.6%	R
Percent of public health threat samples for communicable diseases and other threatening illness analyzed within specified turnaround times	95.4%	93.4%	93%	92.2%	Y
Overall Program Rating					Y

Facilities Management Program. Third-party revenue collections continue to fall short of the target. A program of this size and importance needs additional outcome measures for quality of patient care and services, as well as enhanced measures of financial performance.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of substantiated cases of abuse, neglect and exploitation per one hundred residents in agency-operated long-term care programs confirmed by the division of health improvement	0	.24	0	.28	R
Percent of billed third party revenues collected at all agency facilities	n/a	60%	74%	59.8%	R
Overall Program Rating					R

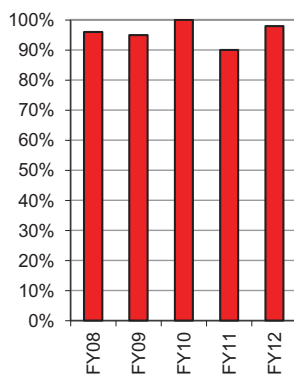
DWI Tests Completed within 10 Days



Source: DOH

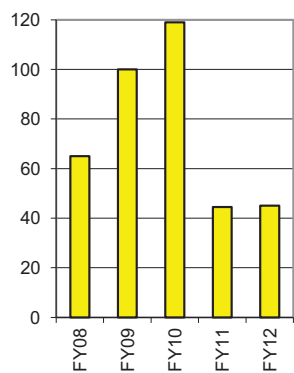
Department of Health

DD Waiver Applicants with Service Plans within 90 days of Eligibility



Source: DOH

Percent of Compliance Surveys Completed for Adult Residential and Daycare Facilities



Source: DOH

Developmental Disabilities Support Program. The number of individuals on the DD waiver receiving services slightly increased over the year. However, given \$1 million of additional funding in FY12 in conjunction with cost-containment activities, a greater increase in the number of individuals receiving services is expected. The DD waiver waiting list continues to grow and miss the performance target. Cost inflation is a major issue within this program with increased services and exceptions driving up the average cost per client, which limits the ability to bring in new clients from the waiting list.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of adults receiving developmental disabilities day services engaged in community-integrated employment	32%	32%	29%	36%	G
Percent of developmental disabilities waiver applicants with a service plan in place within ninety days of income and clinical eligibility determination	100%	90%	93%	98%	G
Number of individuals on the developmental disabilities waiting list	4,988	5,401	4,720	5,911	R
Overall Program Rating					Y

Health Certification, Licensing, and Oversight Program. The program reports the results for the percent of quality management bureau surveys and compliance surveys are negatively impacted by staff vacancies. The agency's action plan indicates priority is given to statutorily required investigations and serious complaints.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of required compliance surveys completed for adult residential care and adult daycare facilities	119%	44.5%	74%	45%	R
Overall Program Rating					R

Aging & Long-Term Services

The Aging and Long-Term Services Department (ALTSD) continues to improve the quality of its outcome measures to better quantify program results.

Consumer and Elder Rights Program. The program measures reflect prevention efforts to reduce the number of complaints in nursing homes and assisted living facilities. A care coordination model has been developed at the aging and disability resource center in response to the complexity of care needs.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of ombudsman complaints resolved	3,795	3,398	3,900	3,728	Y
Percent of people accessing consumer and elder rights programs in need of two or more daily living services who receive information, referral, and assistance	33%	34%	40%	40%	G
Overall Program Rating					Y

Aging Network Program. The program served 52,703 persons 3,544,619 meals. Data collection for this measure is difficult because of the large number of service providers, but the ALTSD adjusted the target upward from 25 thousand to 50 thousand based on historical information.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of persons whose food insecurity is alleviated by meals received through the aging network	52,110	51,708	50,000	52,703	G
Overall Program Rating					G

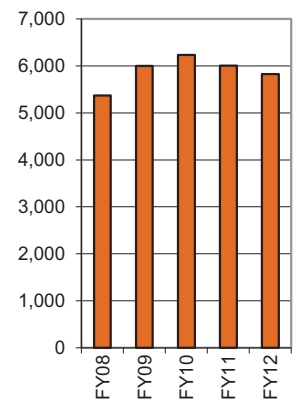
Adult Protective Services Program. The program's performance was impacted by a decreased number of reports from the public, fewer reports meeting criteria for investigation, and staff vacancies.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of adult protective services investigations requiring emergency or priority response within 24 hours or less	12.5%	14.7%	10.5%	11.7%	Y
Number of adults receiving adult protective services investigations of abuse, neglect or exploitation	6,236	6,004	6,000	5,824	Y
Overall Program Rating					Y

In FY12, 31.4 percent of individuals exiting from the federal older worker program obtained unsubsidized employment. The FY13 performance target is 25 percent.

In FY12, 94,289 persons received aging network community services. The FY13 performance target is 95,000.

Adults Receiving an APS Intervention

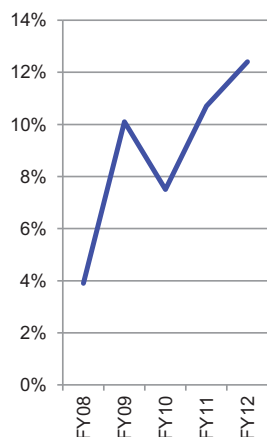


Source: ALTSD

Food insecurity is defined by the U.S. Department of Agriculture as limited access to adequate food due to lack of money and other resources.

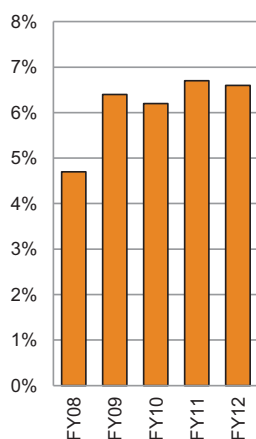
Children, Youth & Families

Clients Recommitted to a CYFD Facility within Two Years of Discharge



Source: CYFD

Clients Readjudicated within Two Years of Previous Adjudication



Source: CYFD

The Children, Youth and Families Department (CYFD) performance outcomes decreased in FY12 partly as a result of hiring restrictions put in place in FY11. A lengthy hiring process coupled with staff burnout and retirements caused significant turnover of frontline staff. Increasing juvenile recidivism rates and repeat maltreatment of children in protective services are symptomatic of staffing problems, lack of community resources, and complexity of cases. The FY13 appropriation to the CYFD demonstrated the Legislature's commitment to ensuring funding was available to fill critical positions. The FY13 budget lowered the average vacancy rate for the department from 9 percent in FY12 to 6 percent and funded vacant positions at mid-range to help with recruitment.

Juvenile Justice Facilities. In FY12, the average population at secure juvenile justice facilities increased by 12.7 percent over FY11. The juvenile justice secure facilities operated at or near full capacity in FY12. The current bed capacity for the juvenile facilities is 264. The drop in the percent of incidents requiring the use of force resulting in injury might indicate maturation of the Cambiar New Mexico model. Increasing recidivism rates for clients recommitted to a CYFD facility within two years of discharge are concerning; however, only 32 clients were recommitted within two years of discharge out of more than 15 thousand clients in the entire juvenile justice system.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of clients recommitted to a children, youth and families department facility within two years of discharge from facilities	7.5%	10.7%	9.0%	12.4%	R
Percent of incidents in juvenile justice services facilities requiring use of force resulting in injury	2.7%	2.5%	3.0%	1.4%	G
Overall Program Rating					Y

Protective Services. Timely assessment of safety threats and risk factors is critical to protect New Mexico's children. Inadequate staffing resulted in delayed assessments. Vacancy rates for protective service workers, including mental health counselors and social workers, hovered around 16 percent for FY12. These high vacancy rates limited the support workers can provide to parents, including foster parents. In the fourth quarter of FY12, 231 children were identified to have experienced substantiated maltreatment within six months of a previous determination, and 19 children in foster care were the subject of substantiated maltreatment.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of children who are not the subject of substantiated maltreatment within six months of a prior determination of substantiated maltreatment	91.4%	91.8%	93.0%	92.3%	Y

Children, Youth & Families

Percent of children who are not the subject of substantiated maltreatment while in foster care

99.67% 99.72% 99.68% 99.48%

R

Percent of children reunified with their natural families in less than twelve months of entry into care

71.5% 63.6% 71.5% 67.3%

Y

Overall Program Rating

Y

Early Childhood Services. A small percentage of providers in rural areas have star level two through five licenses and accreditation, largely due to a lack of resources, including access to training and higher education. The training and technical assistance programs (TTAPs) are contracted by the CYFD to increase childcare quality. The CYFD is restructuring the current tiered quality rating and improvement system to increase focus on children's early learning to improve kindergarten-readiness. Child outcome measures are needed to indicate if participation in higher quality programs makes a difference in cognitive and social development and kindergarten-readiness. The CYFD home visiting and childcare programs lack child outcome measures.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of children receiving state subsidy in stars/aim high programs level two through five or with national accreditation	69.8%	69.8%	69.0%	76.3%	G
Percent of mothers participating in home visiting identified as having symptoms of postpartum depression and referred to services and receiving services	n/a	n/a	New measure	44.5%	n/a

Overall Program Rating

Y

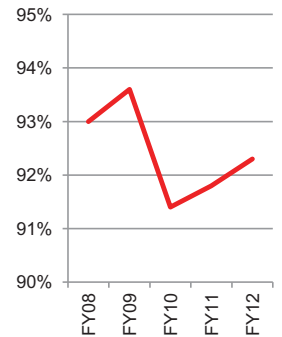
Program Support. To address turnover, the CYFD is focusing on improving the quality of worker supervision, through supervisor trainings, to provide youth-care specialist the support they need to cope with the job demands. The youth-care specialist entry salary is \$12.15 an hour.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Turnover rates for youth-care specialists	11.4%	18.0%	11.9%	20.4%	R
Percent vacancy rate for youth-care specialists	9.0%	16.1%	8.0%	13.3%	Y

Overall Program Rating

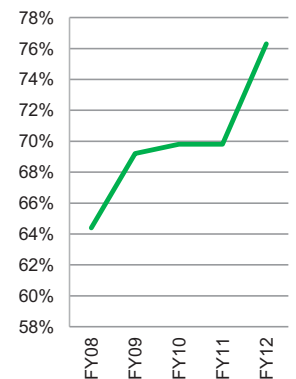
Y

Children Not the Subject of Substantiated Maltreated within Six Months of a Prior Determination of Substantiated Maltreatment



Source: CYFD

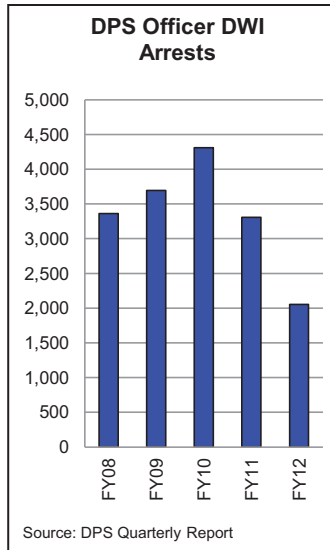
Children Receiving State Subsidy in High-Level Programs



*STARS/Aim High Programs Levels 2 through 5 or with National Accreditation

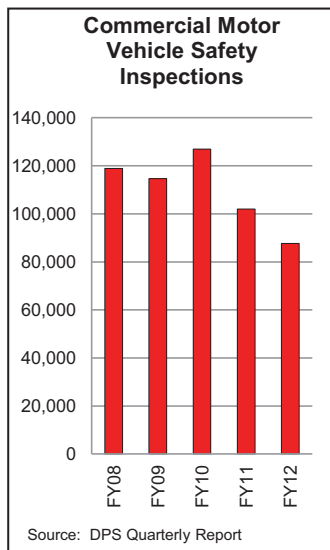
Source: CYFD

Department of Public Safety



Vacancy rates at almost 20 percent are

- Having an impact on the level of law enforcement activity,
- Being caused by uncompetitive salaries,
- Decreasing the level of DWI enforcement activity.



The Department of Public Safety's (DPS) performance measures focus primarily on key areas of responsibility including alcohol and drug abuse, violent crime, and traffic safety. These measures do not report whether the state is any more safe and are not reliable when trying to measure the department's impact.

Law Enforcement Program. Alcohol-related performance outcomes are significantly below target while alcohol-related traffic fatalities increased possibly because of high vacancy rates. To address vacancies, there will be two recruit academies in FY13.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of driving-while-intoxicated arrests by commissioned officers	Baseline	3,309	3,200	2,052	R
Number of first-time driving-while-intoxicated arrests	2,406	2,371	2,000	1,289	R
Number of repeat driving-while-intoxicated arrests	1,905	938	1,200	763	R
Number of criminal cases investigated by commissioned officers	18,694	17,766	15,000	16,831	Y
Number of drug arrests by commissioned officers	1,404	1,280	1,000	1,235	Y
Number of administrative citations issued for illegal sales of alcohol to minors or intoxicated persons by the special investigations division	546	440	200	215	Y
Number of criminal citation or arrests for illegal sales of alcohol to minors or intoxicated persons by special investigations division	235	238	150	95	R

Overall Program Rating Y

Motor Transportation Program. Anecdotal evidence, based on site visits, suggests a 14.8 percent vacancy rate is posing challenges to maintaining inspection and citation activities at optimal levels. Motor carrier safety audits increased but were lower than FY10 levels.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of commercial motor vehicle safety inspections	126,927	101,984	85,000	87,682	Y
Number of commercial motor vehicle citations issued	Baseline	33,492	40,256	27,684	R
Number of noncommercial motor vehicle citations issued	Baseline	9,168	11,152	11,226	G

Overall Program Rating Y

Corrections Department

The New Mexico Corrections Department (NMCD) currently maintains performance measures that reflect the department's overall public safety mission. Late release of inmates costs \$10 million a year and was cited in a recent LFC evaluation as a potential area to save money. The department is developing a contract with Otero County to house hard-to-place inmates. The recidivism rate increased over the last three years and is considered a policy priority.

Inmate Management and Control. While the program did not meet the measures related to timely release, the department acknowledges the problem and announced a full audit of all inmate files. To address the increase in inmate-on-inmate assaults, the department is segregating populations. The steadily increasing recidivism rate is an area of concern.

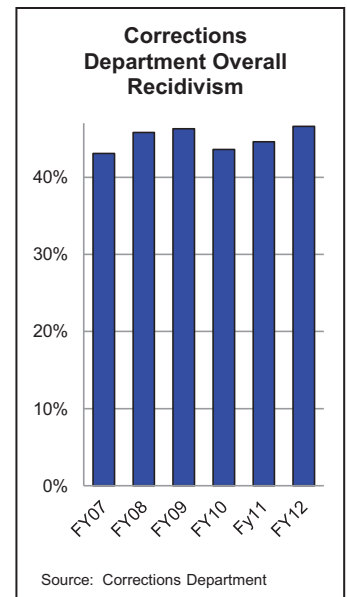
Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent turnover of correctional officers	11.8%	10.3%	13%	10.6%	G
Number of inmate-on-inmate assaults with serious injury	19	14	23	21	Y
Number of inmate-on-staff assaults with serious injury	6	4	10	1	G
Percent of female offenders successfully released in accordance with their scheduled release dates	95%	95%	90%	79.7%	R
Percent of male offenders successfully released in accordance with their scheduled release dates	86%	85%	90%	82.2%	R
Percent of all prisoners re-incarcerated within thirty-six months after being discharged from a department prison or into community supervision	43.6%	44.6%	47%	46.6%	Y
Recidivism rate of the success for offenders after release program by thirty-six months	32.7%	33.7%	35%	37%	R
Overall Program Rating					Y

Community Offender Management. The department is working with the State Personnel Office to increase salaries to reduce turnover and lower caseloads.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Average standard caseload per probation and parole officer	95	99	92	114	R
Overall Program Rating					R

The number of prisoners released on their scheduled release dates decreased over the last year. This is costly for several reasons:

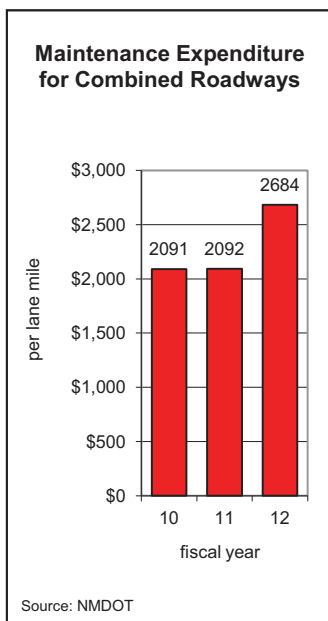
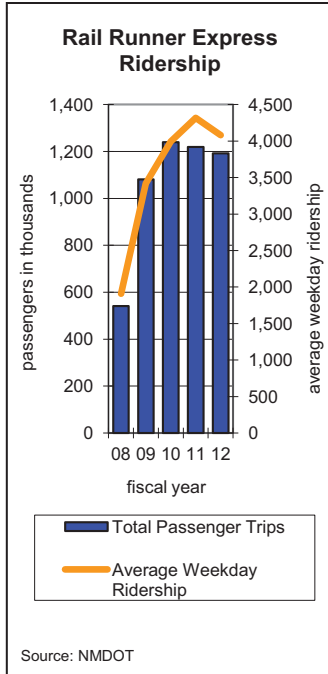
- The average cost to house inmates per day is \$92.89, resulting in higher costs to the department for delayed releases
- Inmates who have not completed their sentences might not be ready to re-enter society, resulting in increased recidivism and, in at least one case, violent crime
- Late and early release exposes the department, and other agencies, to civil litigation.



Due to parole officer recruitment and retention issues:

- The LFC evaluation recommended increasing parole officer pay
- The department reports that it is working with the State Personnel Office to increase salaries
- The average standard caseload per officer is at 114 while the nationally recognized best practice is 65.

Department of Transportation



Key performance results for the Department of Transportation (NMDOT) are consistently below FY12 targets but above FY10 and FY11 actuals. Poor performance results for highway maintenance and pavement preservation are attributable to shortfalls in the state road fund and emphasize the need for effective project prioritization. Vacancy rates remain high. However, the NMDOT continues to make tangible efforts to improve performance measures.

Programs and Infrastructure. Fatalities increased, jumping 25 percent from FY11 to FY12. The department launched the ENDWI campaign in June 2012 and expects to see better results. The annual number of riders on the Rail Runner remains below target levels. Cost-over-bid amounts on highway construction targets dropped substantially, but the percent of projects let to bid as scheduled is below the FY12 target. The percent of airport runways in satisfactory or better condition are still below the FY12 target and FY10 actuals.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Annual number of riders on the rail runner corridor (in millions)	1.2	1.2	≥1.5	1.2	Y
Number of passengers not wearing seatbelts in motor vehicle fatalities	147	114	<160	169	R
Number of crashes in established safety corridors	529	511	≤ 700	n/a	
Percent of airport runways in satisfactory or better condition	75%	60%	>70%	64%	R
Number of pedestrian fatalities	35	38	<45	57	R
Number of head-on crashes per one hundred million vehicle miles traveled	1.18	1.18	<2.00	n/a	
Number of alcohol-related fatalities	147	102	<145	169	R
Total number of traffic fatalities	360	316	<365	395	R
Number of non-alcohol-related fatalities	204	214	<220	226	R
Ride quality index for new construction	4.1	4.0	>4.0	4.1	G
Percent of final cost-over-bid amount on highway construction projects	4.0%	2.9%	<5.8%	3.0%	G
Annual number of riders on park and ride	258,086	292,476	≥ 250,000	310,128	G

Department of Transportation

Percent of projects in production let as scheduled

66%

56%

>75%

65%

R

Overall Program Rating

R

Transportation and Highway Operations. Performance results for the program reflect insufficient levels of funding. In many instances, the department must make a choice: whether funds should be spent so good roads do not become bad roads or spent so that bad roads do not become failed roads. Results suggest roads and highways across the state are deteriorating rapidly and are inconsistent with appropriate standards of public safety. Performance results for pavement preservation and maintenance are well below targets.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of non-interstate miles rated good	86%	n/a	>88%	84.5%	R
Percent of interstate lane miles rated good	99%	n/a	>97%	96.8%	Y
Number of combined systemwide miles in deficient condition	3,171	n/a	<2,500	3,644	R
Number of statewide pavement preservation lane miles	2,432	2,094	>2,750	2,169	R
Amount of litter collected from department roads, in tons	15,527	15,282	>16,000	9,001	R
Customer satisfaction at rest areas	99%	98.9%	>98%	99%	G
Maintenance expenditures per lane mile of combined system wide miles	\$2,092	\$1,656	>\$3,500	\$2,684	R

Overall Program Rating

R

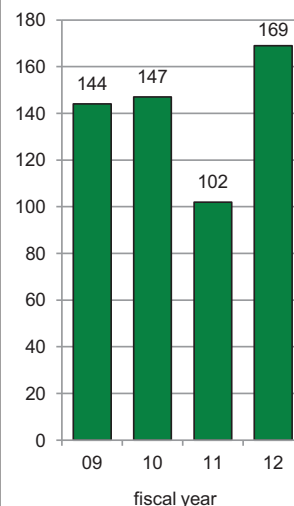
Business Support. The department struggles with recruitment and retention of employees, leading to an excessive vacancy rate. The State Personnel Office (SPO) provided the NMDOT with flexibility to create its own shortlists and hire employees without vetting through the SPO. The number of employee work days lost to accidents is high, although skewed by separate injuries to five individuals.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Vacancy rate in all programs	17%	16.4%	<13	19.4%	R
Number of employee work days lost due to accidents	379	667	<325	982	R
Number of employee injuries	107	92	<100	90	G

Overall Program Rating

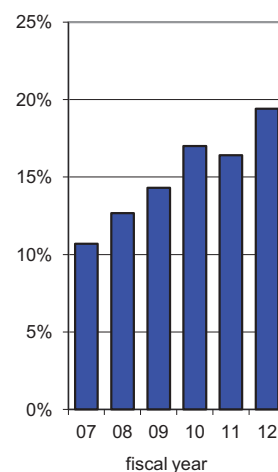
Y

Number of Alcohol-Related Traffic Fatalities



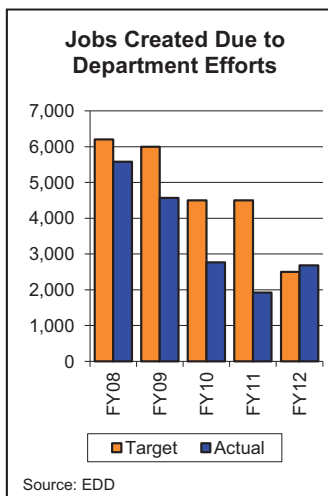
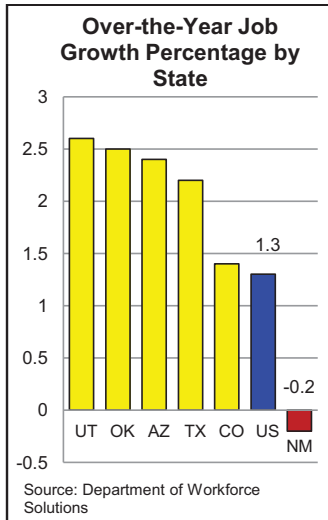
Source NMDOT

NMDOT Vacancy Rate



Source: NMDOT

Economic Development



The Economic Development Department (EDD) exceeded its FY12 target for total jobs created with a substantial increase in the number of announced new jobs; outcomes for all measures indicate static or improving performance compared with FY11. However, New Mexico lost 1,700 jobs during FY12, and was the only state in the immediate region with negative job growth. Of the 2,684 jobs announced by the department, 38 percent occurred through the Job Training Incentive Program (JTIP), 25 percent through the Economic Development Partnership, and 22 percent through the MainStreet program.

The department retroactively changed a few of the results reported during prior quarters, indicating a potential issue with record-keeping and use of job announcements as a data source for job creation. Additionally, the department did not have an active performance monitoring plan in place. The department submitted a new plan for FY13, but the LFC and DFA staff determined it did not meet monitoring plan criteria.

Economic Development Program. The performance outcomes for the Economic Development Partnership dipped recently due to reduced business expansion opportunities, caused by slow economic recovery and business concerns about future economic growth. In addition, the Partnership is now receiving less funding through its contract with the EDD – resulting in fewer dollars for recruiting activities. The JTIP reached a higher average cost per job than the target; however, this is a new measure and the target may need to be adjusted upward based on historical averages. Additionally, the higher cost per job reflects the increased wages of jobs funded. Furthermore, the percentage of employees whose wages were subsidized and still employed by the company after one year is significantly higher than during FY10 and FY11. The August LFC report on economic development incentives notes that although originally created to expand employment in manufacturing the JTIP now primarily funds non-retail, service-based businesses. A variety of businesses fall into this category, but call centers have received some of the largest disbursements in recent years.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Total number of jobs created due to economic development department efforts	2,763	1,922	2,500	2,684	G
Total number of rural jobs created	1,446	958	1,100	1,542	G
Number of jobs created through business relocations facilitated by the economic development partnership	767	499	2,200	657	R
Number of leads created through the economic development partnership	New	New	400	392	G
Number of jobs created by the mainstreet program	681	598	570	592	G

Economic Development

Percent of employees whose wages were subsidized by the job training incentive program still employed by the company after one year

55% 47% 60% 72% **G**

Average annual cost per job training incentive program trainee

New New \$2,500 \$4,600 **R**

Overall Program Rating **Y**

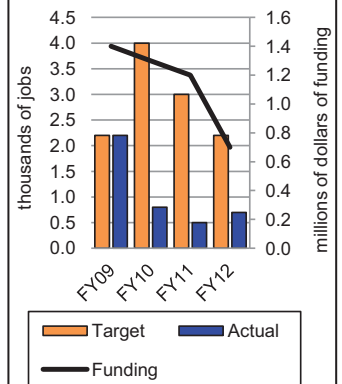
Film Program. Outcomes for the Film Program measures indicate reduced performance compared with FY11, which the local industry maintains is primarily due to the new \$50 million cap instituted for the film production tax credit. However, the department reports the FY12 economic impact is comparable with FY10 in regards to direct spending in the New Mexico economy. In addition, there now is a longer time-frame from when a project is produced to when the pay-outs occur for the credit; therefore, some statistics have yet to be assessed since the cap was put in place. The Film Office produced an independently verifiable list of projects principally made in New Mexico, which satisfied previous concerns regarding data quality, and program officials have substantially improved transparency in reporting.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of media industry worker days	142,524	181,366	150,000	143,046	G
Economic impact of media industry productions in New Mexico, in millions	\$558.6	\$696.6	\$300	\$673.8	G
Number of films and media projects principally made in New Mexico	109	96	60	57	G
Overall Program Rating					G

Technology Commercialization Program. The FY13 operating budget remains at a reduced level, down from \$108.8 thousand in FY11 to \$20 thousand in FY12 and FY13. There is little program activity to report for FY12; however, the department intends to make the program operational again for FY14.

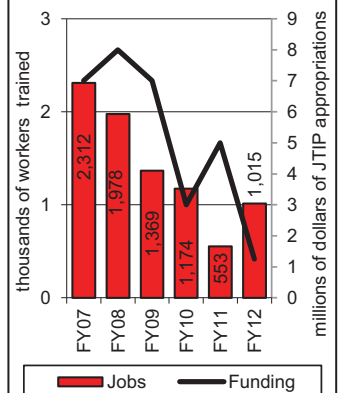
Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Amount of investment as a result of office of science and technology efforts, in millions	\$64.7	\$87.6	\$30.0	n/a	n/a
Overall Program Rating					n/a

Jobs Created through Economic Development Partnership Activities



Source: EDD

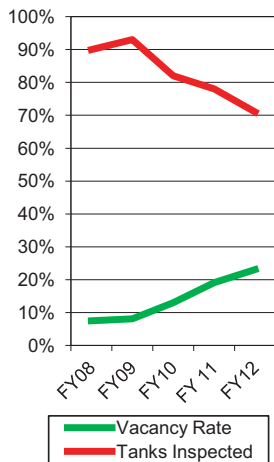
Number of Workers Trained Under JTIP



Source: EDD

Department of Environment

**Environmental Health
Vacancy Rate
compared with Septic
Tank Inspection Rate**



Source: NMED

Seventeen percent of food violations at establishments were not corrected in a timely manner in FY12.

With a few exceptions, FY12 performance results declined from FY11 levels, which the department attributes to a 20 percent vacancy rate. The department's action plan includes filling vacant positions in FY13. Due to the absence of meaningful measures for environmental quality and the decline in FY12 performance, the overall programs are rated yellow, even though in FY12 the department met or exceeded targets.

Environmental Health. Although the program is inspecting septic tanks and radiation-producing machines, the timely correction of high-risk food-related violations remains worrisome. Measures should illustrate the ability of the program to provide training to assist in efforts by the permitted operators to correct deficiencies.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of new septic tank inspections completed	82%	78%	60%	71%	Y
Percent of high-risk food-related violations corrected within the timeframes noted on the inspection report issued to permitted commercial food establishments	86%	84%	100%	83%	R
Percent of radiation-producing machine inspections completed within the timeframes identified in the radiation control bureau policies	94%	86%	85%	88%	G
Overall Program Rating					Y

Water Quality. It is important the program is performing inspections and issuing permits; however, the results do little to indicate whether pollution is prevented or water quality and safety of New Mexico's limited water supply are improving.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of permitted groundwater discharge facilities receiving annual compliance evaluations and annual field inspections	42%	54%	50%	46%	R
Percent of permitted facilities where monitoring results do not exceed standards	72%	72%	70%	71%	G
Percent of cases in which Sandia and Los Alamos national laboratories are notified of agency action on document submittals within the timeframes specified	94%	92%	90%	100%	G
Percent of large hazardous waste generators inspected	40.7%	45.7%	20%	26.2%	Y
Overall Program Rating					Y

Department of Environment

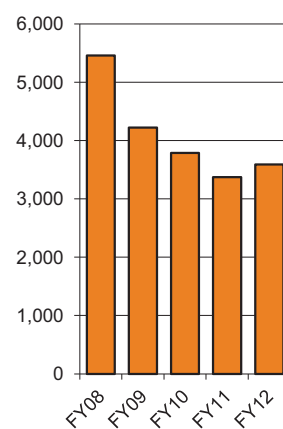
Environmental Protection. The program's measures are among the more meaningful in the department because they provide information concerning improved worker safety and solid waste facility compliance with environmental regulations. The program should adopt measures that report if the environment is any cleaner or if employees are suffering fewer health and safety incidents.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of facilities taking corrective action to mitigate air quality violations discovered as a result of inspections	97%	100%	100%	100%	G
Percent of serious worker health & safety violations corrected within the timeframes designated on issued citations from the consultation and compliance sections	95.7%	98.5%	95.0%	93.6%	R
Percent of referrals alleging serious hazards responded to via an on-site inspection or investigation	95.7%	93.8%	95.0%	93.1%	R
Percent of permitted active solid waste facilities and infectious waste generators inspected that were found to be in compliance with the New Mexico solid waste rules	82%	86%	75%	85%	G
Percent of landfills compliant with groundwater sampling and reporting requirements	95%	97%	75%	95%	G
Overall Program Rating					Y

Water and Wastewater Infrastructure Development. In FY13 restructuring will eliminate this program, moving its bureaus to other divisions. The restructuring is an opportunity to revisit bureaus' responsibilities and improve accountability. Measures for these bureaus do not indicate whether New Mexico's water and wastewater infrastructure is improving over time.

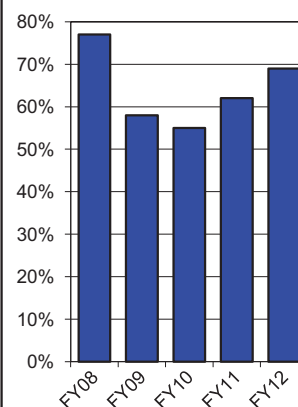
Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of uniform funding applications processed for water, wastewater, and solid waste projects	277	265	TBD	259	G
Percent of public water systems surveyed to ensure compliance with drinking water regulations	100%	91%	89.2%	87%	R
Overall Program Rating					Y

Annual Liquid Waste Permits Issued



Source: NMED

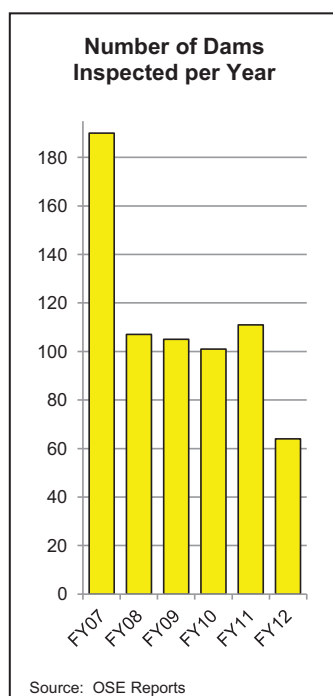
Underground Storage Tanks in Operational Compliance



Source: NMED

Office of the State Engineer

Without completed adjudications, the state lacks a legal basis for enforcing water rights in the event of a priority call.



The 2012 estimated cost to address all 217 deficient publicly owned dams is \$246 million.

The mission of the Office of the State Engineer (OSE) is to actively protect and manage the water resources of New Mexico. The state constitution mandates priority administration as the basis for water administration. The ongoing drought continues to increase the strain on a limited water supply. Without completed adjudications, the state lacks a legal basis for enforcing water rights in the event of a priority call. Additionally, dams present a growing safety issue throughout New Mexico and the ongoing drought continues to impact compact compliance. The department attributes the backlogs in dam inspections, water rights applications and adjudication processes to the number of vacancies and problems with recruitment and retention. In FY12 the department's average vacancy rate was 19.4 percent.

Water Resource Allocation. The program did not meet the FY12 targets. The department notes the high number of vacancies and heavy workload are straining the Water Resource Allocation program's ability to serve water users statewide, resulting in sizeable water rights application backlogs and a significant decrease in inspections of dams during FY12. Of note is the high demand for services attributable to the ongoing drought and high oil and gas activity in the Permian Basin. The agency suggests the majority of the new applications were for new groundwater wells, supplemental wells, or to change the location of wells due to many water users turning to groundwater because surface water is less available. In FY12 the Abstracting Bureau saw considerable improvement of transactions abstracted into the database, although the program fell short of meeting the target. The agency reports the bureau abstracted transactions in Lea County basin, which has a large number of less complex files; however, going forward the basin will have fewer of these types of cases and the FY12 level may not be sustainable.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Average number of unprotected new and pending applications processed per month	66.0	56.4	65.0	46.2	R
Number of unprotected and unaggrieved water right applications backlogged	435	629	650	991	R
Number of dams inspected per year	101	111	100	64	R
Number of transactions abstracted annually into the water administration technical engineering resources system database	25,707	20,974	25,000	24,678	Y
Overall Program Rating					R

Interstate Stream Compact Compliance and Water Development. The program is meeting its delivery requirements as required by the Pecos and Rio Grande river compacts. However, the program cautions that annual shortfalls in Pecos River delivery credit have occurred in the past and remain a possibility in the ongoing drought. Successful

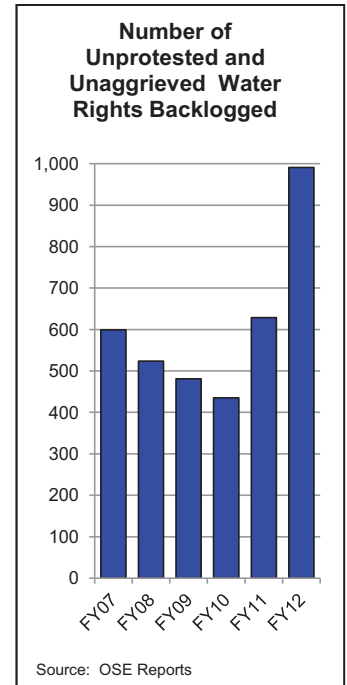
Office of the State Engineer

implementation of the Pecos River Compact will essentially eliminate the possibility of a large-scale priority call on the Lower Pecos River that adversely affects the economy. While both measures represent important annual accomplishments that point to meeting federal mandates for water delivery requirements on the Pecos and Rio Grande rivers, the measures do not represent other accomplishments of the program.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Cumulative state-line delivery credit per the Pecos river compact and amended decree at the end of the calendar year, in acre-feet (AF)	100.1K AF Credit	99.6K AF Credit	0 Credit	100.1K AF Credit	G
Rio Grande river compact accumulated delivery credit or deficit, in acre-feet (AF)	164.7K AF Credit	164.7K AF Credit	0 Credit	80.0K AF Credit	G
Overall Program Rating					G

Litigation and Adjudication. The program should develop improved indicators of the adjudication process that consider progress made prior to the issuance of a final decree. Measures such as the number of mediations conducted, hydrologic surveys completed, or meetings conducted by the Water Ombudsman Program at the Utton Transboundary Resources Center could provide further insight into the substantial work on adjudications not currently captured in the measures. The program did not meet the target for making offers of judgement – documents served on an adjudication defendant to initiate the process of resolving water rights – because of the natural cycle of alternating between sending out offers of judgment and resolving cases. A team working on a particular adjudication might send out a large number of offers for a year or two and then spend several years resolving the open cases. Although the program exceeded its FY12 target for the percent of water rights adjudicated, neither of these two measures provide a clear view of progress in adjudicating the state's waters. Reporting the percent of water rights that have judicial determinations only reflects the water rights in active and completed adjudications; it does not include the Middle Rio Grande and the Canadian River adjudications that have yet to be initiated. At the current pace, the program is decades away from adjudicating all water rights in New Mexico.

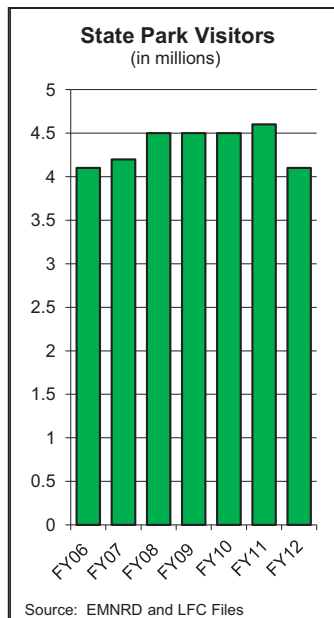
Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of offers to defendants in adjudications	1,071	880	1,000	640	R
Percent of all water rights that have judicial determinations	48%	51%	50%	53%	Y
Overall Program Rating					R



At the current pace, the state of New Mexico may be decades away from judicially determining all water rights in the state.

Energy, Minerals & Natural Resources

The department anticipates federal funding for energy programs will be reduced in upcoming fiscal years.



In FY12, New Mexico State Park visitation decreased 10.9 percent, while self-generated revenue per visitor increased by 6.1 percent.

The mission of the Energy, Minerals, and Natural Resources Department is to position New Mexico as a national leader in energy and natural resource areas. The department generally met FY12 targets despite challenges such as the recent severe fire seasons, worsening drought conditions, and increased production of oil and gas, a critical source of employment and income for New Mexico.

Renewable Energy and Efficiency. The program exceeded its FY12 target for the number of inventoried clean energy projects evaluated annually; however, the target was revised downward due to the expiration of ARRA funding. The measure for electricity sales will be discontinued in FY13 and replaced with a measure that reports the program's ability to review applications for clean energy tax credits.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of inventoried clean energy projects evaluated annually	183	91	50	54	G
Percent of retail electricity sales from investor-owned utilities in New Mexico from renewable energy sources	9.0%	9.5%	10%	8%	R
Overall Program Rating					Y

Healthy Forests. The program exceeded FY12 targets for all measures due to federally funded initiatives for wildland firefighter training, wildfire protection planning for at-risk communities, as well as restoration projects. The department anticipates it will fall short of the current targets in the future because of a decrease in federal funding. Due to extreme fire danger during the summer months of 2011 and 2012, the program's resources were directed toward firefighting efforts, thus the forest and watershed acreage treated was lower than in previous years.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of nonfederal wild land firefighters provided technical fire training appropriate to their incident command system	1,339	839	500	1,474	G
Percent of at-risk communities participating in collaborative wildfire protection planning	25%	46%	25%	48%	G
Number of acres restored in New Mexico's forests and watersheds	17,133	19,788	8,000	11,971	G
Overall Program Rating					G

State Parks. The program met the targets for visitors to state parks and self-generated revenue per visitor despite challenges in FY12 related to inclement weather, including drought, natural disasters such as flood or fire, or threats of aquatic invasive species causing partial or full park closures. Although high fuel prices, low water levels and lake

Energy, Minerals & Natural Resources

closures throughout the state have discouraged recreational boating and resulted in fewer boaters interested in completing the boating safety course than in prior years, in FY13 the program should continue efforts to market the opportunity to take this free course. The program should look for new ways of creating revenue opportunities.

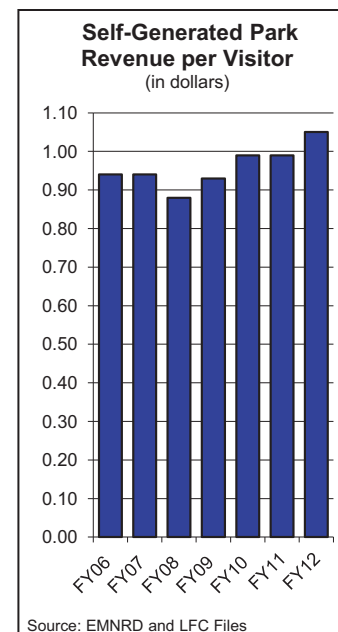
Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of visitors to state parks (in millions)	4.6	4.6	4.0	4.1	G
Self-generated revenue per visitor	\$0.99	\$0.99	\$0.87	\$1.05	G
Number of interpretive programs available to park visitors	3,582	3,959	2,600	3,962	G
Number of persons that complete a certified New Mexico boating safety education course	1,209	900	1,000	625	R
Overall Program Rating					G

Mine Reclamation. The program met both targets for FY12. As of June 2012 all permitted mines have financial assurance plans to cover the cost of reclamation.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of permitted mines with approved reclamation plans and adequate financial assurance posted to cover the cost of reclamation	98%	99%	100%	100%	G
Percent of abandoned uranium mines with current site assessments	70%	100%	75%	100%	G
Overall Program Rating					G

Oil and Gas Conservation. High activity in the Permian Basin and the resulting benefit to the state economy through royalties and severance taxes emphasize the importance of timely inspection of oil and gas wells in the state. While funding and positions have declined, inspections increased 19.7 percent from FY11. The program should adopt measures to report length of time to process permits and inspect oil and gas wells. For FY13 the program added a measure regarding the number of abandoned wells properly plugged.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of inspections of oil and gas wells and associated facilities	38,352	29,352	23,500	35,147	G
Overall Program Rating					G



Oil and Gas Conservation Expenditures and FTE

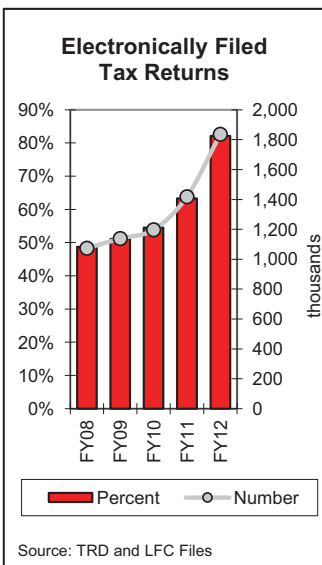
Fiscal Year	Actual Expenditures (in millions)	FTE
FY08	\$7.80	68
FY09	\$8.40	68
FY10	\$7.70	68
FY11	\$5.50	62
FY12	\$7.00	62

Source: EMNRD and LFC files

Taxation & Revenue Department

TRD FY12 Funding by Division (in millions)		
Program	Budget	FTE
Tax Ad.	\$30.60	528
MVD	\$24.20	348
Prop Tax	\$3.10	41
Comp Enf	\$2.00	28
Prog Sup	\$20.20	191
Total	\$80.10	1136

Source: TRD FY12 Operating Budget



The Tax Administration Program made progress in FY12, exceeding targets for tax collections and electronic tax filing for the year. Motor vehicle field office and call center wait times continue to be impacted by high vacancy rates, at 19 percent and 25 percent, respectively. The Compliance Enforcement Program referred just four tax fraud cases for prosecution in FY12, in part because it prioritized resources to criminal cases regarding the issuance of foreign national drivers' licenses. Finally, the department completed the *2012 New Mexico Tax Expenditure Report* and posted it on its website.

Tax Administration Program. The program exceeded its targets for FY12. Managers note a large audit assessment was paid in the fourth quarter, which elevated the measure well above the 40 percent target for FY12. The department achieved a significant increase in the percentage of electronically filed taxes compared with prior years. The department is reviewing other tax programs for e-filing options to further increase electronic filing.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Collections as a percent of collectable outstanding balances from June 30, 2011	18.3%	15.4%	15.0%	18.4%	G
Collections as a percent of collectable audit assessments generated in the current fiscal year	53%	51%	40%	64%	G
Percent of electronically filed personal income tax and combined reporting system returns	54.5%	63.3%	65.0%	82.1%	G
Overall Program Rating					G

Compliance Enforcement Program. A total of 26 cases were assigned to program agents in FY12; of these, four investigations were referred for criminal prosecution during the year. Currently, 46 open cases are under investigation and another nine cases residing with various district attorney offices awaiting prosecution.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Successful tax fraud prosecutions as a percent of total cases prosecuted	100%	93%	100%	100%	G
Number of tax investigations referred to prosecutors as a percent of total investigations assigned during the year	New Measure	44%	40%	15%	R
Overall Program Rating					Y

Taxation & Revenue Department

Motor Vehicle Program. High vacancies continue to impact the MVD. The LFC is conducting a performance audit of the division that includes an evaluation of field offices and use and of the Q-Matic system. The LFC expects to recommend new or improved performance measures based on best practices.

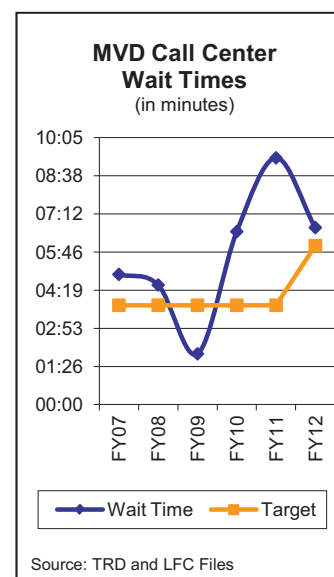
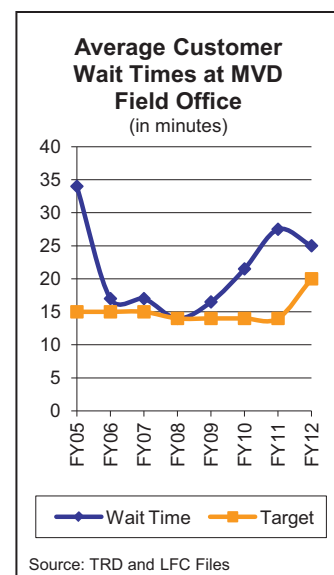
Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Average wait time in q-matic equipped offices, in minutes	21:30	27:06	20:00	25:06	R
Percent of registered vehicles with liability insurance	91.0%	90.9%	92.0%	91.8%	Y
Average call center wait time to reach an agent, in minutes	6:32	9:19	6:00	6:41	Y
Overall Program Rating					Y

Property Tax Program. The target for number of appraisals was missed due to the consolidation or exit of companies. For FY13 the department will report on the percent of appraisals and valuations completed for companies in the state subject to assessment.

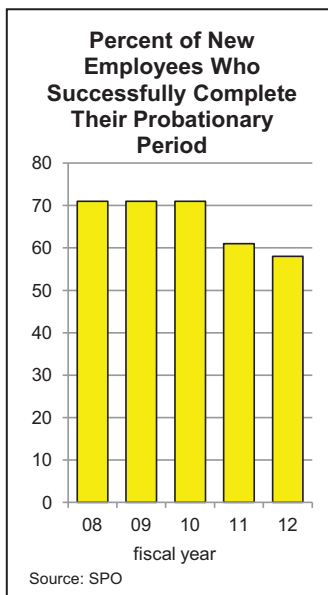
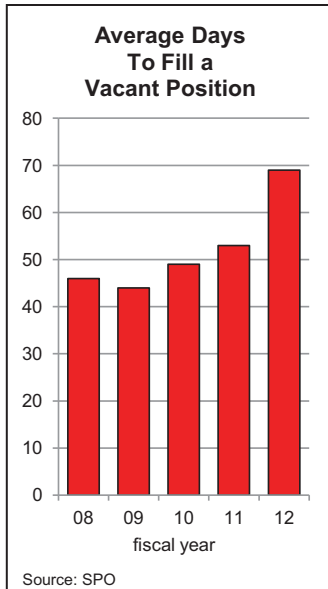
Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of counties in compliance with sales ratio standard of eighty-five percent assessed value to market value	91%	94%	90%	97%	G
Number of appraisals and valuations for companies conducting business within the state subject to state assessment	539	515	540	534	Y
Overall Program Rating					Y

Program Support. Only 10 cases out of 5,051 were rescinded due to weather conditions or errors by the department.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of DWI driver's license revocations rescinded due to failure to hold hearings within ninety days	0.29%	0.29%	<1.0%	0.20%	G
Overall Program Rating					G



State Personnel Board



The performance of the State Personnel Board (SPB) is mixed but agency officials are pursuing activities designed to eliminate problems – many of which extend across the state personnel system. The agency continues to address and implement ambitious changes in policy and practice. Over the past year, a new strategic plan was drafted, a new personnel application and certification system was implemented (NEOGOV), and a number of classification schedules were revised. The SPO is establishing “shared services” agreements with state agencies having fewer than 100 employees, specifically designed to establish more effective human resource functions. New compensation policies aimed at improving both recruitment and retention are being analyzed by agency officials, with the goal of making the state more competitive with other states in the region and the private sector. Of particular relevance are ongoing efforts to improve performance measures, using metrics that effectively evaluate outcomes at individual agencies in a comparative perspective. The result of this effort will be greater accountability and efficiency in state government. Examples of these measures are new employees who complete their probationary period, new hire separations, reason for separation, and new-hire compa-ratios.

Human Resource Management. Results for measures for average number of days to fill a vacant position, number of employees with completed performance appraisals, and the percent of new employees who successfully complete their probationary period are below FY10 and FY11 actuals and far below FY12 targets. The average number of days to fill a vacant position exceeds two months and only 58 percent of employees complete their probationary period. These results indicate serious problems that directly impact the recruitment and retention of qualified individuals in the state.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Average number of days to fill a vacant position	49	53	40	69	R
Percent of new employees who successfully complete their probationary period	71%	61%	85%	58%	R
Number of rule compliance audit reviews performed during the fiscal year	6	5	5	5	G
Percent of eligible employees with a completed performance appraisal on record at the close of the fiscal year	66%	66%	99%	58%	R
Percent of union grievances resolved prior to formal arbitration	95.5%	100%	95%	96%	G
Average employee pay as a percent of board-approved comparator market based on legislative authorization	103%	103%	100%	100%	G
Overall Program Rating					Y

Administrative Office of the Courts

The goal of the Administrative Office of the Courts (AOC) is to assist the judiciary in its mission to provide access to justice, resolve disputes justly and timely, and maintain accurate records of legal proceedings that affect the rights and legal status of New Mexico citizens. The AOC became a key agency in FY10.

Administrative Support. The introduction of a new process for juror orientation that allows potential jurors to complete their orientation remotely is creating a cost savings. The Board of Finance has converted loans of \$1.4 million to a grant. In FY 12, the Legislature appropriated \$5.8 million to the jury and witness fund. The Legislature granted the AOC a \$296 thousand supplemental appropriation for the jury and witness fund.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Average cost per juror	\$55.68	\$53.86	\$50.00	\$49.64	G

Overall Program Rating

G

Magistrate Court Program. The percent of cases disposed as a percent of cases filed is particularly encouraging due to the implementation of the Odyssey case management system now operational in all magistrate courts. Courts implementing Odyssey generally expected a slowdown in the clerk's office. In fact, this data suggests the implementation is going smoothly and not creating a backlog in magistrate courts.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Bench warrant revenue collected annually, in millions	\$3.1	\$3.4	\$2.4	\$3.1	G
Percent of cases disposed as a percent of cases filed	96.6%	106.1%	95%	101.7%	G

Percent of magistrate courts financial reports submitted to fiscal services division and reconciled on monthly basis.	95.8%	97.8%	100%	98.6%	Y
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Overall Program Rating

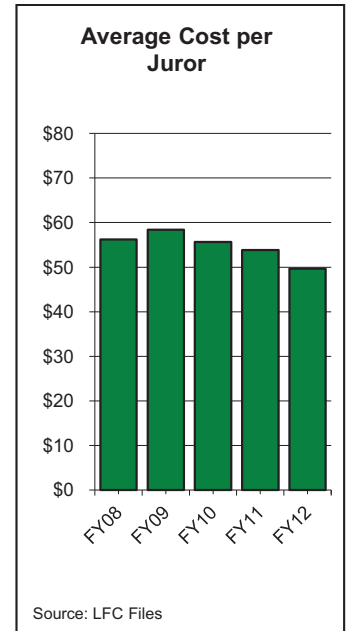
G

Special Court Services. The Court Appointed Special Advocate (CASA) program did not achieve FY12 targeted level due to lack of provider availability in the 12th Judicial District and the Second Judicial District Court is in the process of transitioning the administration of the CASA program to an outside treatment provider resulting fewer referrals to the program.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Number of cases to which court-appointed special advocates volunteers are assigned	1,085	869	1,000	858	Y

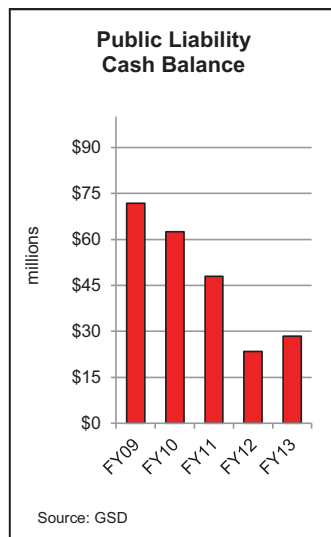
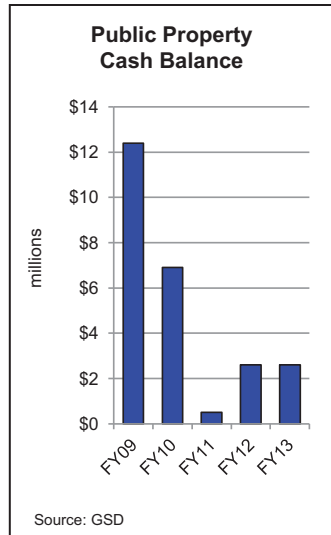
Overall Program Rating

Y



In FY12, the Special Court Services program provided 2,516 supervised child visitations and exchanges exceeding its target of 750.

General Service Department



Enrollment Census

Vendor	Covered Lives*	
	7/1/2012	7/1/2010
BCBS	21,696	23,516
Lovelace	8,323	8,234
Presbyterian	43,105	44,319
Delta Dental	76,746	81,339
VSP	65,544	69,147

Source: GSD

The General Services Department (GSD) is composed of several enterprise activities that play an important role in helping agencies reduce operational costs, minimize risk, and manage assets; yet the measurement of performance in these areas is imprecise.

Risk Management Program. The policy goal is to set rates at a sufficient level to cover expenses and maintain reserves of 50 percent and not much greater. The program has problems with rate setting as demonstrated by large budget adjustment requests to manage spending. In addition, agencies do not have confidence that rates are apportioned equitably. The GSD acknowledges weak financial reporting for this program and is working toward improvement.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Projected financial position of the public property fund	309%	1.7%	50%	127%	Y
Projected financial position of the workers' compensation fund	30%	24%	20%	34%	G
Projected financial position of state and local public body (LPB) unemployment compensation funds	State (87%) LPB (221%)	State (41%) LPB (98%)	50%	State (70%) LPB (96%)	R
Projected financial position of the public liability fund	54%	48%	50%	46%	Y
Percent of accounts receivable dollars uncollected ninety days after invoice due date	n/a	11%	5%	3%	G
Overall Program Rating					R

Employee Group Health Benefits Program. Despite medical cost trend of 8 percent per year, the program has held premiums flat since FY09. To meet expenses, the program has been steadily increasing out-of-pocket expenses without much attention to controlling costs. For FY14, the program will increase premiums 15 percent and further increase out-of-pocket expenses to lower misuse of services.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of state group prescriptions filled with generic drugs	80.5%	82.4%	75%	82.6%	G
Percent of eligible state employees purchasing state health insurance	91.3%	92%	90%	95.5%	G
Percent change in medical premium compared with industry average	0%	0%	0%	0%	Y

General Services Department

Percent change in dental premium compared with the national average

0%

0%

0%

0%

Y

Overall Program Rating

Y

Building Office Space Management Maintenance Services. The state's workforce shrunk 14 percent the past three years and agencies are absorbing space rather than identifying opportunities to reduce space. The percent of state-controlled office space occupied is an inadequate measure for the amount of square footage per state employee. However, the program acknowledges it does not have adequate data on FTE and is working toward getting there.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of state-controlled office space occupied	90%	97%	95%	96%	Y
Percent of property control capital projects on schedule within approved budget	96.2%	94%	90%	95.3%	G
Percent of fully funded projects in design within six months of approved budget	n/a	84%	75%	100%	G
Number of funded projects greater than five hundred thousand dollars under construction	33	56	12	21	G

Overall Program Rating

G

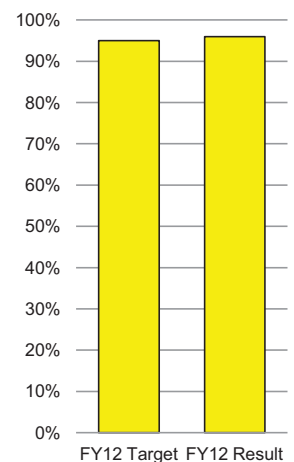
Transportation Services Program. The State Motor Pool reports a 14 percent decrease in revenue due to fewer employees statewide and fees that do not cover the full cost of doing business. Out of 1,985 available vehicles, 1,094 will have exceeded their lifecycle by FY13. Aviation services were not sustainable from fees alone because aircraft use was only 146 hours, down from 291 hours in FY10, due to executive policies that discouraged use of the state's aircraft.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of short-term vehicle use	49%	46%	50%	45%	Y
Percent of total available aircraft fleet hours used	n/a	22%	40%	21%	R
Percent of state vehicle fleet beyond five-year/100,000 mile standard	10%	10%	25%	15%	G
Percent of individual vehicle leases that break even, including 60 days of operating reserve	n/a	n/a	100%	0%	R
Percent of passenger vehicle lease revenues to expenses	100%	100%	100%	97%	Y

Overall Program Rating

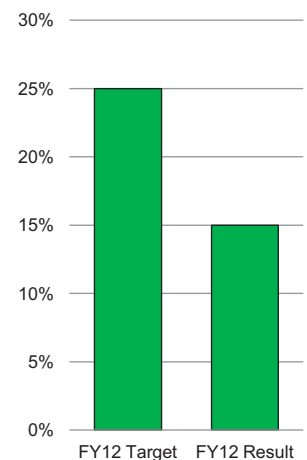
Y

State Controlled Office Space Occupied



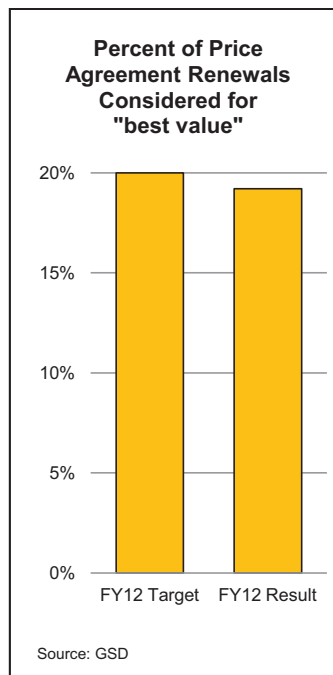
Source: GSD

Percent of State Vehicle Fleet beyond 5-year/100,000 mile standard



Source: GSD

General Services Department



Procurement Services Division. The Procurement Reform Task Force is developing reforms for legislative consideration that update the complex rules and policies that govern how agencies buy goods and services. The program saw 41 procurement code violations under \$100 thousand in FY12, most for invalid contracts, and averaged 6.4 days to resolve violations, despite staff shortages.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of all price agreement renewals considered for "best value" strategic sourcing option	n/a	19.7	20	19.2	Y
Number of small business clients assisted	245	361	250	327	G
Number of government employees trained on procurement code compliance and methods	612	600	500	636	G
Average resolution time in days for procurement code violations under \$100 thousand	n/a	2.8	30	6.4	G
Overall Program Rating					G

State Printing and Graphic Services. The state printing fund has been in a negative cash balance position since FY10 due to state budget constraints and policies that did not restrict agencies using out-of-state vendors. The program generated more revenue per employee compared with the previous year due to a higher vacancy rate.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Revenue generated per employee compared with the previous fiscal year	\$62,000	\$96,691	\$70,000	\$82,500	G
Sales growth in state printing revenue compared with the previous fiscal year	0%	-5.6%	10%	12.5%	G
Percent of customers satisfied with printing services	82%	90%	82%	91.4%	G
Overall Program Rating					Y

Department of Information Technology

The department exceeded targets for accounts receivables in FY12, with 81 percent of accounts receivable dollars collected within 60 days of the invoice due date. It would be useful for the department to develop measures reflecting state agency satisfaction with the overall quality and efficiency of enterprise services and customer service.

Compliance and Project Management. At the end of FY12, there were 54 department-certified information technology projects worth \$325 million. The department has reinstated the “green-yellow-red” performance report for state IT projects with the largest budgets.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of executive agency certified projects reviewed monthly for compliance and oversight requirements	100%	100%	100%	100%	G
Overall Program Rating					G

Enterprise Services. The program met its performance targets for unscheduled downtime for the mainframe and SHARE systems. The program will have a new measure for FY13 that assesses wait times based on call priority.

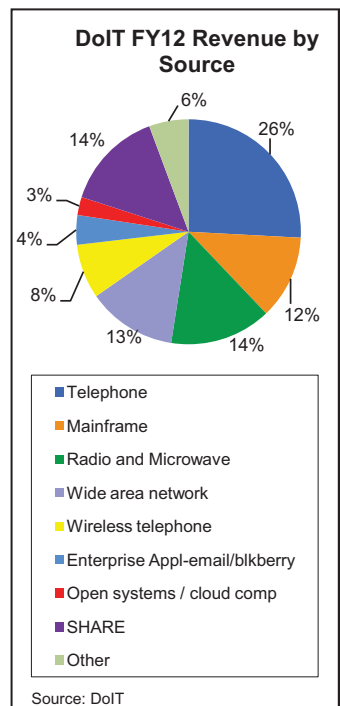
Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Queue-time to reach a customer service representative at the department help desk, in seconds	19.6	19.9	<19.0	14.0	G
Percent of unscheduled downtime of the mainframe	0.098%	0.07%	0.01%	0.0%	G
Percent of business days the statewide human resources management reporting (SHARE-HCM) is unavailable due to unscheduled downtime from 8 a.m. to 5 p.m. Monday through Friday	New Measure	1.4%	<5.0%	1.1%	G
Overall Program Rating					G

Program Support. The program exceeded the target for accounts receivable dollars collected within 60 days of the invoice due date.

Measure	FY10 Actual	FY11 Actual	FY12 Target	FY12 Actual	Rating
Percent of accounts receivable dollars collected within sixty days of the invoice due date	42%	79%	75%	81%	G
Program Rating					G

DoIT FY12 Funding by Division (in thousands)		
Program	Budget	FTE
Enterprise Svc	\$48,263.70	152
Compliance and Proj Mgt	\$472.00	7
Prog Sup	\$3,210.50	41
Equip Replace	\$4,275.00	n/a
Total	\$56,221.20	200

Source: FY12 DoIT Operating Budget



Program Evaluation

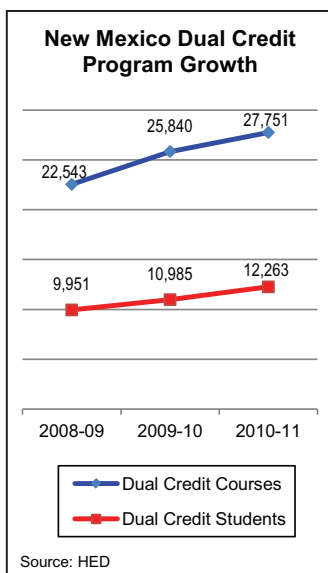
In 2011, 2,446 third-graders, or 10 percent, were within 2 points of scoring proficient on the standards-based assessment.

Third-Grade Achievement Gap Related to Poverty, 2011			
	Free Lunch	Non-Free Lunch	Difference
Hispanic	44%	68%	24%
Caucasian	61%	80%	19%
Native American	33%	55%	22%

Source: LFC Analysis

Ten percent of New Mexico's third-grade class in 2011 had been retained between kindergarten and third-grade, but only 29 percent of those students were proficient as third-graders.

Dual credit courses are college-level courses taken by high school students that count for both high school and postsecondary credit at little or no cost to students, but considerable cost to taxpayers.



In 2012, program evaluations identified opportunities for improving core government services with projects related to education, capital outlay, and health care, economic development, incarceration, and the Motor Vehicles Division. These program evaluations involved more complex statistical techniques, including developing a cost-benefit model to calculate the return on investment from new family home visits and incarceration, parole, and community-based supervision programs. Additionally, evaluations reported on the effect of early literacy initiatives, like prekindergarten and extended school year services, on third grade reading proficiency rates. The significant issues and recommendations from the 12 projects conducted in 2012 are summarized below.

Public Schools.

Developing Early Literacy. Given the importance of early reading proficiency, New Mexico has invested heavily in full-day kindergarten, prekindergarten (PreK), and the extended-school-year program Kindergarten-Three Plus (K-3 Plus). Gaps persist in achievement between ethnicities, but the biggest differences are strongly associated with poverty and English proficiency, highlighting the importance of allocating resources to areas of greatest need and implementing research-based language acquisition models. This evaluation concluded investments in PreK and K-3 Plus resulted in measureable, significant improvements in third-grade reading proficiency rates. Both PreK and K-3 Plus serve more challenging populations and appear to be cost-effective alternatives to retaining students, which, based on an analysis of third-graders from 2011, has a mixed relationship with reading proficiency. Finally, the evaluation quantified the importance of high-quality school leadership and recommended reducing the minimum number of years for administrative licensure.

Dual Credit. In FY10, New Mexico allocated an estimated \$34.4 million through the public school and higher education funding formulas for 10,985 high school students to take dual-credit courses. However, the state spends as much on a dual-credit course, often a basic first-year undergraduate and certificate course, as it spends for an advanced upper-division college course. High schools and postsecondary institutions both receive full student funding, even though the student receives dual-credit instruction from one system. Preliminary outcomes, such as less need for remedial courses, are positive for dual-credit participants, but might reflect that these students are more academically prepared already. The high cost for dual credit is difficult to justify due to a lack of consistent goals for student educational pathways, weak oversight, and lack of evidence that completing a dual-credit course leads to quicker college degree completion. The evaluation recommended funding changes based on full-time enrollment; funding only courses that are academically challenging and impact student outcomes, such as those that are transferable or offered in a structured sequence; and improving the quality and oversight of dual-credit programs.

Teacher Effectiveness. Because quality classroom instruction is integral to student success, identifying and supporting quality teachers is an important policy goal for public education in New Mexico. This report evaluated the three-tier system's effectiveness in rewarding high-performing educators and the possible options for incorporating value-added models into performance-based licensure for teachers and grades for schools to better facilitate the retention and development of excellent classroom teachers.

Teacher and Administrator Preparation. Numerous studies have identified the importance of high-quality teaching and strong leadership on impacting student performance. In FY12, \$1.2 billion was spent on teacher salaries and benefits in New Mexico, with even more allocated to teacher and administrator preparation through the higher education funding formula. This evaluation analyzed the relationships between these preparation programs and student outcomes on the standards-based assessments. Based on these observed relationships, the evaluation recommended improvements in the internship components of both teacher and administrator preparation programs.

Health and Human Services.

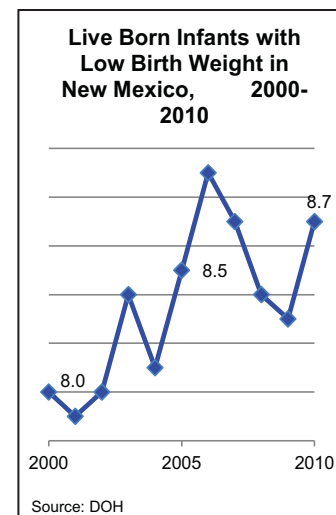
Improving Outcomes for Pregnant Women and Children through Medicaid. As the major insurer in New Mexico for pregnant women and young children, the state has the opportunity to use Medicaid services to improve the quality of life for these populations. Given the serious health and well-being challenges many families face, the state should direct resources to intensive prevention efforts that use validated screening tools and standard assessment processes to prioritize funding for programs that improve the lives of children and mothers. Evidence-based home visits to families with infants, such as the Nurse-Family Partnership (NFP), can provide these needed interventions. The evaluation's main recommendation, was to fund evidence-based home-visiting programs through Medicaid.

Public Health Offices. The system to provide public health services includes five regional and 54 local offices spanning the state; in some cases, these offices are the only local providers of health services. Although the service array is similar, service costs vary significantly among regional offices. In FY12, the Public Health Division funded 288 service contracts for a total of \$41.8 million, but contract oversight lacks outcome-focused monitoring to determine if programs are aligned with the department's initiatives. Finally, the evaluation recommends modifying the Public Health Act to accurately reflect state and county financial responsibilities for facility and personnel costs at public health offices.

General Government.

New Mexico Corrections Department (NMCD). In FY11, New Mexico spent almost \$300 million to house an average of 6,700 adult offenders and supervise another 18 thousand. The average inmate will have three trips to an NMCD facility and recidivism is on the rise in New Mexico. As a whole, the NMCD suffers from gaps in program

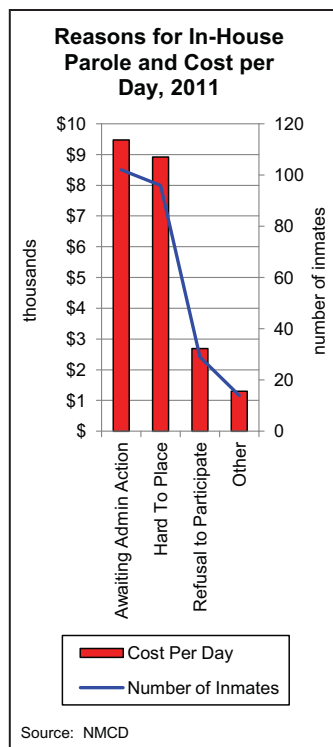
Estimates from the LFC New Mexico Results First model show close to a \$5 return on every dollar invested in intensive evidence based home visiting programs.



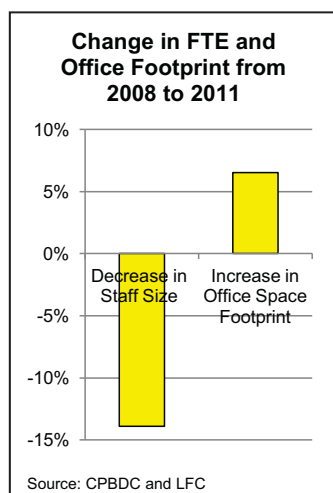
Public Health Offices Cost per Unit of Service, FY11	
Region I & III	\$ 14.18
Region III	\$ 11.81
Region IV	\$ 13.18
Region V	\$ 22.17

Source: DOH PHD

Program Evaluation



New Mexico lacks a comprehensive approach for financing and monitoring performance of job creation incentives.



In 2003, the EPA reported more than 14 states had implemented pay-for-performance contracting, resulting in faster and more effective cleanups.

oversight, ineffective use of resources, and patterns of inefficient spending. Immediate cost-savings opportunities are available to the NMCD by reducing the number of inmates on in-house parole and using the medical and geriatric parole program. Additionally, the NMCD lacks valid assessments and poorly manages behavioral health programs, inadequately preparing inmates for successful transition into the community. Key recommendations include reducing recidivism through strategic investment in evidence-based programs, accompanying cost-savings measures agreed to in contract with private prisons with reductions in per-diem rates, and working with the Behavioral Health Collaborative and OptumHealth to expand the provider network and recover more than \$1 million in unused funds.

Selected Economic Development Incentives. The state uses a mix of incentives for job creation that cost an estimated \$468 million between FY07 and FY11, including tax expenditures, direct incentives such as the Job Training Incentive Program (JTIP), and capital infrastructure investment through the Local Economic Development Act (LEDA). The vast majority of the state's investment in economic development occurs through various tax credits, with estimated foregone revenue of \$375 million, followed by grants through LEDA totaling \$63 million. The state spends the least on direct incentives under the JTIP, with a total of \$30 million expended between FY07 and FY11. While these incentives can make New Mexico more competitive, all three programs have weaknesses in accountability, reporting, and assessing program value. There is no comprehensive review or regular analysis of all job creation incentives to inform budget decisions. The state is unable to demonstrate the taxpayers' return on investment. Major recommendations include increasing the JTIP reporting requirements to assess long-term program benefits; standardizing LEDA reporting and strengthening provisions that require employers to pay back the state for unfulfilled job goals; and regularly analyzing tax credits, including implementation of sunset provisions.

Capital Outlay. New Mexico spends more than \$47 million annually to lease office space for state agencies. While the number of state employees decreased by nearly 14 percent over the past four years, the state increased the overall office footprint by 6.5 percent. To better align the state's use of office space, more should be done to improve statewide planning, compliance with space standards, and office consolidation. Despite challenges, the General Services Department (GSD) has reduced costs and the amount of state-leased space, but further efforts are needed. In the past year alone, the cost of leased space decreased approximately \$1.2 million at an estimated total savings of \$8.9 million over the life of 28 leases. Recommendations include establishing a schedule of building use fees charged to agencies occupying state-owned buildings and removing the exceptions to the GSD jurisdiction for state-owned building oversight.

With an estimated 90 percent of the state's 2.1 million New Mexicans dependent on groundwater as a source of drinking water, the threat of contamination from the 1.4 million gallons of gasoline used and stored annually is serious. Most, if not all, of New Mexico's 3,880

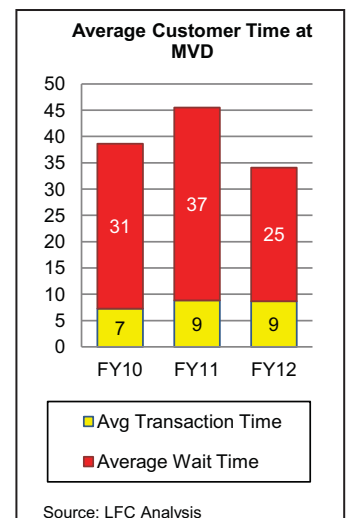
underground petroleum storage tanks have released or will release gasoline into the environment through spills, overfills, or failures in the tank or piping system. Through the corrective action fund, the state collects \$18.8 million in annual fees on gasoline delivery for the New Mexico Environment Department (NMED) to clean up current and future spill sites. At the current pace, however, NMED needs 20 years and \$263 million to eliminate the inventory of 739 spill sites. By implementing best practices, including conducting site assessments prior to contracting for remediation, executing pay-for-performance contracts, and transitioning to third-party insurance providers, the state could lower costs, speed clean up, and reallocate these fees to the road fund.

The state contributed \$3.5 million to the cost of six miles of new bike trails in Santa Fe, but a formal maintenance plan is not in place to ensure long-term accessibility and safe use. State funding was part of a larger \$18.8 million city project for seven bicycle and trail projects. The LFC identified \$67 thousand in questionable expenditures and recommended the DFA recover these funds.

Built at twice the average construction cost of similar projects, the state appropriated more than \$9.1 million for the plan, design, and construction of the 26,000 square-foot Wind Center at Mesalands Community College. The center provides facilities for training students in wind energy technology and to host visiting students and research staff. The LFC recommends funding capital projects as a two-step process, first funding planning and design, then construction.

Motor Vehicles Division (MVD). This evaluation revealed MVD operations are handicapped by reduced staff, high vacancy rates, and low pay levels. Additionally, formal training has not occurred for several years and the MVD faces a critical shortage of information technology personnel at a time when more services are being placed online and when the agency's computer system faces a total overhaul. Although information is collected regarding the operation of its field offices and partner agencies, analysis and monitoring are inadequate for policy compliance. Recommendations for improvement in the MVD's operations and customer service include balancing peak customer transaction periods, redesigning the IT system, and better using data to inform management decisions.

An IBM study characterized the MVD's computer system as the worst in the nation.



With a new director, MVD is redirecting its efforts into improving customer services as reflected by the expansion in online services, more coordinated customer feedback, and reduced wait times.

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

Business		FY13	FY14	FY14	\$	Percent
		Operating	Agency	LFC	Over	Change
Unit	Description	Budget	Request	Recomm.	FY13 Oper.	
Legislative						
111	LEGISLATIVE COUNCIL SERVICE	5,483.4	5,560.0	5,560.0	76.6	1.4%
112	LEGISLATIVE FINANCE COMMITTEE	3,922.8	4,016.3	4,016.3	93.5	2.4%
114	SENATE CHIEF CLERK	1,111.9	1,135.2	1,135.2	23.3	2.1%
115	HOUSE CHIEF CLERK	1,065.1	1,102.7	1,102.7	37.6	3.5%
117	LEGISLATIVE EDUCATION STUDY COMMITTEE	1,194.0	1,212.8	1,212.8	18.8	1.6%
119	LEGISLATIVE BUILDING SERVICES	3,881.6	3,988.2	3,988.2	106.6	2.7%
131	LEGISLATURE	1,916.0	2,015.0	1,932.0	16.0	0.8%
Total Legislative		18,574.8	19,030.2	18,947.2	372.4	2.0%
Judicial						
205	SUPREME COURT LAW LIBRARY	1,505.6	1,565.1	1,546.7	41.1	2.7%
208	NEW MEXICO COMPILATION COMMISSION	0.0	0.0	0.0	0.0	0.0%
210	JUDICIAL STANDARDS COMMISSION	742.9	821.2	766.5	23.6	3.2%
215	COURT OF APPEALS	5,514.3	5,814.3	5,691.1	176.8	3.2%
216	SUPREME COURT	2,879.3	3,247.3	3,019.9	140.6	4.9%
218	ADMINISTRATIVE OFFICE OF THE COURTS	40,678.5	45,849.4	43,025.5	2,347.0	5.8%
219	SUPREME COURT BUILDING COMMISSION	833.4	879.4	841.4	8.0	1.0%
231	FIRST JUDICIAL DISTRICT COURT	6,175.7	6,499.9	6,285.5	109.8	1.8%
232	SECOND JUDICIAL DISTRICT COURT	21,051.5	22,027.1	21,594.0	542.5	2.6%
233	THIRD JUDICIAL DISTRICT COURT	6,064.4	6,355.1	6,188.8	124.4	2.1%
234	FOURTH JUDICIAL DISTRICT COURT	2,067.0	2,231.0	2,117.5	50.5	2.4%
235	FIFTH JUDICIAL DISTRICT COURT	5,839.8	6,129.2	6,058.7	218.9	3.7%
236	SIXTH JUDICIAL DISTRICT COURT	3,010.3	3,152.8	3,101.3	91.0	3.0%
237	SEVENTH JUDICIAL DISTRICT COURT	2,124.9	2,264.2	2,191.1	66.2	3.1%
238	EIGHTH JUDICIAL DISTRICT COURT	2,613.6	2,827.6	2,662.4	48.8	1.9%
239	NINTH JUDICIAL DISTRICT COURT	3,078.8	3,321.9	3,172.3	93.5	3.0%
240	TENTH JUDICIAL DISTRICT COURT	751.6	795.7	781.1	29.5	3.9%
241	ELEVENTH JUDICIAL DISTRICT COURT	5,730.4	6,036.7	5,928.1	197.7	3.5%
242	TWELFTH JUDICIAL DISTRICT COURT	2,926.8	3,113.8	3,025.7	98.9	3.4%
243	THIRTEENTH JUDICIAL DISTRICT COURT	6,274.8	6,589.0	6,458.7	183.9	2.9%
244	BERNALILLO COUNTY METROPOLITAN COURT	21,937.8	23,033.2	22,694.2	756.4	3.4%
251	FIRST JUDICIAL DISTRICT ATTORNEY	4,639.8	4,890.0	4,835.2	195.4	4.2%
252	SECOND JUDICIAL DISTRICT ATTORNEY	16,414.2	17,676.3	17,107.2	693.0	4.2%
253	THIRD JUDICIAL DISTRICT ATTORNEY	4,300.7	4,788.3	4,417.8	117.1	2.7%
254	FOURTH JUDICIAL DISTRICT ATTORNEY	2,906.4	3,284.4	2,954.2	47.8	1.6%
255	FIFTH JUDICIAL DISTRICT ATTORNEY	4,209.9	4,757.9	4,453.2	243.3	5.8%
256	SIXTH JUDICIAL DISTRICT ATTORNEY	2,477.2	2,908.7	2,564.2	87.0	3.5%
257	SEVENTH JUDICIAL DISTRICT ATTORNEY	2,231.8	2,393.6	2,306.2	74.4	3.3%
258	EIGHTH JUDICIAL DISTRICT ATTORNEY	2,397.7	2,651.7	2,482.1	84.4	3.5%
259	NINTH JUDICIAL DISTRICT ATTORNEY	2,594.8	2,870.2	2,676.7	81.9	3.2%
260	TENTH JUDICIAL DISTRICT ATTORNEY	957.3	1,017.8	995.5	38.2	4.0%
261	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION I	3,136.8	3,714.7	3,270.8	134.0	4.3%
262	TWELFTH JUDICIAL DISTRICT ATTORNEY	2,506.9	2,797.0	2,602.1	95.2	3.8%
263	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	4,598.6	5,461.7	4,772.6	174.0	3.8%
264	ADMINISTRATIVE OFFICE OF THE DISTRICT ATTORNEYS	1,840.0	2,199.2	1,840.0	0.0	0.0%
265	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION II	2,012.8	2,103.9	2,076.9	64.1	3.2%
Total Judicial		199,026.3	216,069.3	206,505.2	7,478.9	3.8%

TABLE 1 GENERAL FUND AGENCY RECOMMENDATION SUMMARY

Business		FY13	FY14	FY14	\$	
		Operating	Agency	LFC	Over	Percent
Unit	Description	Budget	Request	Recomm.	FY13 Oper.	Change
General Control						
305	ATTORNEY GENERAL	8,258.7	15,733.0	9,438.5	1,179.8	14.3%
308	STATE AUDITOR	2,516.6	3,178.0	2,647.7	131.1	5.2%
333	TAXATION AND REVENUE DEPARTMENT	53,342.1	54,963.4	54,659.9	1,317.8	2.5%
337	STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0%
341	DEPARTMENT OF FINANCE AND ADMINISTRATION	22,833.9	23,023.2	23,023.2	189.3	0.8%
342	PUBLIC SCHOOL INSURANCE AUTHORITY	0.0	0.0	0.0	0.0	0.0%
343	RETIREE HEALTH CARE AUTHORITY	0.0	0.0	0.0	0.0	0.0%
350	GENERAL SERVICES DEPARTMENT	13,384.6	15,021.5	13,786.0	401.4	3.0%
352	EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0%
354	NEW MEXICO SENTENCING COMMISSION	529.8	529.8	529.8	0.0	0.0%
355	PUBLIC DEFENDER DEPARTMENT	40,145.3	42,045.8	41,624.7	1,479.4	3.7%
356	GOVERNOR	3,391.6	3,587.1	3,587.1	195.5	5.8%
360	LIEUTENANT GOVERNOR	579.9	585.8	585.8	5.9	1.0%
361	DEPARTMENT OF INFORMATION TECHNOLOGY	844.5	855.8	855.8	11.3	1.3%
366	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	0.0	0.0	0.0	0.0%
369	STATE COMMISSION OF PUBLIC RECORDS	2,544.0	2,831.9	2,619.9	75.9	3.0%
370	SECRETARY OF STATE	4,580.7	8,505.4	5,415.6	834.9	18.2%
378	PERSONNEL BOARD	3,896.1	4,570.7	4,159.8	263.7	6.8%
379	PUBLIC EMPLOYEE LABOR RELATIONS BOARD	214.0	216.5	214.0	0.0	0.0%
394	STATE TREASURER	3,572.3	3,968.8	3,684.5	112.2	3.1%
Total General Control		160,634.1	179,616.7	166,832.3	6,198.2	3.9%
Commerce and Industry						
404	BOARD OF EXAMINERS FOR ARCHITECTS	0.0	0.0	0.0	0.0	0.0%
417	BORDER AUTHORITY	333.4	339.1	334.8	1.4	0.4%
418	TOURISM DEPARTMENT	8,300.7	10,858.7	9,773.9	1,473.2	17.7%
419	ECONOMIC DEVELOPMENT DEPARTMENT	6,497.2	6,811.9	6,542.8	45.6	0.7%
420	REGULATION AND LICENSING DEPARTMENT	12,802.9	13,886.0	12,995.2	192.3	1.5%
430	PUBLIC REGULATION COMMISSION	7,836.8	8,412.7	7,895.5	58.7	0.7%
446	MEDICAL BOARD	0.0	0.0	0.0	0.0	0.0%
449	BOARD OF NURSING	0.0	0.0	0.0	0.0	0.0%
460	NEW MEXICO STATE FAIR	0.0	0.0	0.0	0.0	0.0%
464	STATE BOARD OF LICENSURE FOR ENGINEERS & LAND SUR	0.0	0.0	0.0	0.0	0.0%
465	GAMING CONTROL BOARD	5,467.5	5,839.4	5,547.6	80.1	1.5%
469	STATE RACING COMMISSION	1,983.0	2,751.4	2,345.4	362.4	18.3%
479	BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0%
490	CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION	87.0	115.0	98.7	11.7	13.4%
491	OFFICE OF MILITARY BASE PLANNING AND SUPPORT	125.6	156.9	144.4	18.8	15.0%
495	SPACEPORT AUTHORITY	456.2	461.3	456.2	0.0	0.0%
Total Commerce and Industry		43,890.3	49,632.4	46,134.5	2,244.2	5.1%
Agriculture, Energy and Natural Resources						
505	CULTURAL AFFAIRS DEPARTMENT	27,313.1	28,272.6	27,979.6	666.5	2.4%
508	NEW MEXICO LIVESTOCK BOARD	459.4	1,421.3	750.0	290.6	63.3%
516	DEPARTMENT OF GAME AND FISH	0.0	0.0	0.0	0.0	0.0%
521	ENERGY, MINERALS AND NATURAL RESOURCES DEPARTM	20,159.7	21,527.2	20,638.1	478.4	2.4%
522	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

Business		FY13	FY14	FY14	\$	
		Operating	Agency	LFC	Over	Percent
Unit	Description	Budget	Request	Recomm.	FY13 Oper.	Change
538	INTERTRIBAL CEREMONIAL OFFICE	105.0	105.0	105.0	0.0	0.0%
539	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0%
550	STATE ENGINEER	14,776.9	18,571.4	15,071.4	294.5	2.0%
Total Agriculture, Energy and Natural Resources		62,814.1	69,897.5	64,544.1	1,730.0	2.8%
Health, Hospitals and Human Services						
603	OFFICE OF AFRICAN AMERICAN AFFAIRS	681.0	705.9	701.4	20.4	3.0%
604	COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS	300.0	300.0	300.0	0.0	0.0%
605	MARTIN LUTHER KING, JR. COMMISSION	198.8	216.0	200.9	2.1	1.1%
606	COMMISSION FOR THE BLIND	2,030.3	2,052.9	2,052.9	22.6	1.1%
609	INDIAN AFFAIRS DEPARTMENT	2,399.9	2,413.6	2,413.6	13.7	0.6%
624	AGING AND LONG-TERM SERVICES DEPARTMENT	42,702.2	45,950.1	44,326.8	1,624.6	3.8%
630	HUMAN SERVICES DEPARTMENT	1,007,384.7	1,064,147.6	1,044,384.7	37,000.0	3.7%
631	WORKFORCE SOLUTIONS DEPARTMENT	3,675.1	4,738.2	3,275.8	-399.3	-10.9%
632	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0%
644	DIVISION OF VOCATIONAL REHABILITATION	5,619.3	5,693.9	5,616.7	-2.6	0.0%
645	GOVERNOR'S COMMISSION ON DISABILITY	852.6	968.3	883.3	30.7	3.6%
647	DEVELOPMENTAL DISABILITIES PLANNING COUNCIL	4,554.0	5,059.5	4,827.2	273.2	6.0%
662	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0%
665	DEPARTMENT OF HEALTH	291,991.5	303,400.5	299,835.7	7,844.2	2.7%
667	DEPARTMENT OF ENVIRONMENT	11,256.2	11,438.5	11,268.4	12.2	0.1%
668	OFFICE OF THE NATURAL RESOURCES TRUSTEE	87.0	87.7	87.0	0.0	0.0%
670	VETERANS' SERVICES DEPARTMENT	2,873.8	3,145.3	2,967.4	93.6	3.3%
690	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	207,732.6	220,387.8	218,335.6	10,603.0	5.1%
Total Health, Hospitals and Human Services		1,584,339.0	1,670,705.8	1,641,477.4	57,138.4	3.6%
Public Safety						
705	DEPARTMENT OF MILITARY AFFAIRS	6,322.7	6,530.4	6,445.2	122.5	1.9%
760	PAROLE BOARD	463.7	498.5	485.7	22.0	4.7%
765	JUVENILE PUBLIC SAFETY ADVISORY BOARD	20.0	20.0	11.0	-9.0	-45.0%
770	CORRECTIONS DEPARTMENT	265,694.0	271,247.8	268,450.0	2,756.0	1.0%
780	CRIME VICTIMS REPARATION COMMISSION	1,710.0	1,855.9	1,832.3	122.3	7.2%
790	DEPARTMENT OF PUBLIC SAFETY	91,199.0	97,599.2	94,613.2	3,414.2	3.7%
795	HOMELAND SECURITY AND EMERGENCY MANAGEMENT	2,393.2	2,893.2	2,424.3	31.1	1.3%
Total Public Safety		367,802.6	380,645.0	374,261.7	6,459.1	1.8%
Transportation						
805	DEPARTMENT OF TRANSPORTATION	0.0	0.0	0.0	0.0	0.0%
Total Transportation		0.0	0.0	0.0	0.0	0.0%
Other Education						
924	PUBLIC EDUCATION DEPARTMENT	10,739.6	12,240.2	11,711.9	972.3	9.1%
925	PUBLIC EDUCATION DEPARTMENT-SPECIAL APPROPRIATIO	41,833.5	70,077.4	50,983.5	9,150.0	21.9%
940	PUBLIC SCHOOL FACILITIES AUTHORITY	0.0	0.0	0.0	0.0	0.0%
949	EDUCATION TRUST BOARD	0.0	0.0	0.0	0.0	0.0%
Total Other Education		52,573.1	82,317.6	62,695.4	10,122.3	19.3%

TABLE 1 GENERAL FUND AGENCY RECOMMENDATION SUMMARY

Business		FY13	FY14	FY14	\$	
		Operating	Agency	LFC	Over	Percent
Unit	Description	Budget	Request	Recomm.	FY13 Oper.	Change
Higher Education						
950	HIGHER EDUCATION DEPARTMENT	34,548.9	34,755.5	34,375.7	-173.2	-0.5%
952	UNIVERSITY OF NEW MEXICO	284,966.0	292,562.8	295,156.6	10,190.6	3.6%
954	NEW MEXICO STATE UNIVERSITY	186,430.8	191,229.8	192,730.1	6,299.3	3.4%
956	NEW MEXICO HIGHLANDS UNIVERSITY	29,160.0	29,541.7	29,896.8	736.8	2.5%
958	WESTERN NEW MEXICO UNIVERSITY	17,554.7	18,043.9	18,610.8	1,056.1	6.0%
960	EASTERN NEW MEXICO UNIVERSITY	42,007.0	42,991.7	44,165.8	2,158.8	5.1%
962	NEW MEXICO INSTITUTE OF MINING AND TECHNOLOGY	35,246.0	35,874.6	36,310.0	1,064.0	3.0%
964	NORTHERN NEW MEXICO COLLEGE	10,525.9	10,772.4	10,775.8	249.9	2.4%
966	SANTA FE COMMUNITY COLLEGE	12,501.0	12,970.4	13,269.4	768.4	6.1%
968	CENTRAL NEW MEXICO COMMUNITY COLLEGE	47,750.4	50,063.9	51,791.8	4,041.4	8.5%
970	LUNA COMMUNITY COLLEGE	7,762.1	7,834.8	7,839.0	76.9	1.0%
972	MESALANDS COMMUNITY COLLEGE	4,290.1	4,340.8	4,285.3	-4.8	-0.1%
974	NEW MEXICO JUNIOR COLLEGE	6,215.0	5,722.7	5,695.9	-519.1	-8.4%
976	SAN JUAN COLLEGE	23,198.7	23,758.0	23,988.4	789.7	3.4%
977	CLOVIS COMMUNITY COLLEGE	8,750.9	9,314.2	9,519.1	768.2	8.8%
978	NEW MEXICO MILITARY INSTITUTE	2,066.1	2,290.2	2,127.5	61.4	3.0%
979	NEW MEXICO SCHOOL FOR THE BLIND AND VISUALLY IMP	975.2	1,146.5	1,083.2	108.0	11.1%
980	NEW MEXICO SCHOOL FOR THE DEAF	3,767.8	3,948.9	3,893.0	125.2	3.3%
Total Higher Education		757,716.6	777,162.8	785,514.2	27,797.6	3.7%
Public School Support						
	PUBLIC SCHOOL SUPPORT	2,402,768.3	2,473,834.9	2,483,531.6	80,763.3	3.4%
Total Public School Support		2,402,768.3	2,473,834.9	2,483,531.6	80,763.3	3.4%
Public Employee Compensation						
	1% COMPENSATION - STATE WORKERS	0.0	0.0	7,200.0	7,200.0	0.0%
	1% COMPENSATION - PUBLIC SCHOOLS	0.0	0.0	18,300.0	18,300.0	0.0%
	1% COMPENSATION - HIGHER EDUCATION	0.0	0.0	5,800.0	5,800.0	0.0%
	3% SPECIAL COMPENSATION (STATE POLICE, MTD)	0.0	0.0	900.0	900.0	0.0%
Total Public Employee Compensation		0.0	0.0	32,200.0	32,200.0	0.0%
Grand Total		5,650,139.2	5,918,912.2	5,882,643.6	232,504.4	4.1%

U.S. AND NEW MEXICO ECONOMIC INDICATORS
December 2012 Consensus Forecast

TABLE 2

	FY2012	FY2013	FY2014	FY2015
<i>NATIONAL ECONOMIC INDICATORS</i>				
US Real GDP Growth (level annual avg, % yoy) ¹				
IHS Global Insight	2.1	1.7	2.8	3.5
Moody's Analytics ²	2.0	1.9	3.0	4.3
US Inflation Rate (CPI, annual avg, % yoy) ³				
IHS Global Insight	3.0	1.5	1.5	1.8
Moody's Analytics ²	2.9	1.9	2.5	2.6
Federal Funds Rate (%)				
IHS Global Insight	0.10	0.16	0.16	0.19
Moody's Analytics ²	0.10	0.10	0.09	0.84
<i>NEW MEXICO LABOR MARKET & INCOME DATA</i>				
NM Non-Agricultural Employment Growth (%)	0.6	0.8	1.1	1.6
NM Personal Income Growth (%) ⁴	4.4	2.7	3.4	5.3
NM Private Wages & Salaries Growth (%)	2.2	3.6	3.7	4.5
<i>CRUDE OIL AND NATURAL GAS OUTLOOK</i>				
NM Oil Price (\$/barrel)	\$89.64	\$85.07	\$84.75	\$83.50
NM Taxable Oil Sales (million barrels)	79.7	84.1	88.4	92.4
NM Gas Price (\$ per thousand cubic feet) ⁵	\$5.00	\$4.50	\$5.00	\$5.40
NM Taxable Gas Sales (billion cubic feet)	1,229	1,185	1,151	1,121

¹Real GDP is BEA chained 2005 dollars, billions, annual rate.

²For national indicators, DFA used Moody's Analytics forecasting service in the revenue estimating process.

³CPI is all urban, BLS 1982-84=1.00 base.

⁴Personal Income growth rates are for the calendar year in which each fiscal year

⁵The gas prices are estimated using a formula of NYMEX, PIRA and Global Insight future prices as well as a liquid premium based on oil prices.

Sources: November IHS Global Insight, BBER FOR-UNM October

TABLE 3

General Fund Consensus Revenue Estimate
December 2012 (Millions of Dollars)

	FY12		FY13		FY14		FY15	
	Preliminary Actual Dec 2012	% Change from FY11	Forecast	% Change from FY12	Forecast	% Change from FY13	Forecast	% Change from FY14
Gross Receipts Tax	1,928.5	5.8%	1,981.3	2.7%	2,042.6	3.1%	2,124.3	4.0%
Compensating Tax	62.1	-10.2%	66.5	7.1%	62.9	-5.4%	64.8	3.0%
TOTAL GENERAL SALES	1,990.5	5.2%	2,047.8	2.9%	2,105.5	2.8%	2,189.1	4.0%
Tobacco Taxes	85.4	-3.2%	84.3	-1.2%	83.2	-1.3%	82.2	-1.2%
Liquor Excise	26.1	1.7%	26.5	1.4%	27.0	1.9%	27.4	1.5%
Insurance Taxes	114.1	-14.0%	122.5	7.4%	137.4	12.2%	177.8	29.4%
Fire Protection Fund Reversion	18.8	6.9%	18.3	-2.6%	17.7	-3.3%	17.0	-4.1%
Motor Vehicle Excise	114.7	10.6%	123.0	7.2%	126.0	2.4%	131.0	4.0%
Gaming Excise	65.5	-0.4%	64.8	-1.1%	65.8	1.5%	66.9	1.7%
Leased Vehicle Surcharge	5.4	7.3%	5.4	1.0%	5.5	1.0%	5.5	1.0%
Other	7.5	213.1%	(2.5)	-133.1%	2.4	-196.5%	2.4	0.0%
TOTAL SELECTIVE SALES	437.5	-0.8%	442.3	1.1%	465.0	5.1%	510.3	9.7%
Personal Income Tax	1,150.5	8.4%	1,166.6	1.4%	1,217.3	4.3%	1,272.6	4.5%
Corporate Income Tax	281.0	22.3%	280.0	-0.4%	342.0	22.1%	383.0	12.0%
TOTAL INCOME TAXES	1,431.5	10.9%	1,446.6	1.1%	1,559.3	7.8%	1,655.6	6.2%
Oil and Gas School Tax	399.6	6.2%	366.0	-8.4%	388.0	6.0%	404.0	4.1%
Oil Conservation Tax	21.5	10.6%	19.5	-9.1%	20.6	5.6%	21.4	3.9%
Resources Excise Tax	12.0	19.0%	10.0	-16.8%	10.0	0.0%	10.0	0.0%
Natural Gas Processors Tax	23.3	28.3%	23.9	2.4%	17.5	-26.8%	18.4	5.1%
TOTAL SEVERANCE TAXES	456.4	7.7%	419.4	-8.1%	436.1	4.0%	453.8	4.1%
LICENSE FEES	49.6	-0.4%	50.4	1.7%	51.6	2.2%	51.9	0.6%
LGPf Interest	461.7	3.5%	438.8	-5.0%	443.8	1.1%	481.6	8.5%
STO Interest	17.4	-1.0%	16.0	-8.1%	19.0	18.6%	19.6	3.0%
STPF Interest	183.4	-0.6%	176.2	-3.9%	168.5	-4.4%	175.7	4.3%
TOTAL INTEREST	662.6	2.2%	631.0	-4.8%	631.3	0.0%	676.9	7.2%
Federal Mineral Leasing	502.6	22.0%	440.0	-12.5%	465.0	5.7%	480.0	3.2%
State Land Office	92.5	41.0%	60.5	-34.6%	63.2	4.5%	64.9	2.6%
TOTAL RENTS & ROYALTIES	595.1	24.7%	500.5	-15.9%	528.2	5.5%	544.9	3.2%
TRIBAL REVENUE SHARING	68.2	3.5%	72.0	5.6%	73.0	1.4%	76.0	4.1%
MISCELLANEOUS RECEIPTS	45.1	-13.6%	46.2	2.4%	42.7	-7.6%	47.9	12.2%
REVERSIONS	65.9	-2.1%	51.0	-22.6%	40.0	-21.6%	40.0	0.0%
TOTAL RECURRING	5,802.4	7.3%	5,707.3	-1.6%	5,932.7	3.9%	6,246.4	5.3%
TOTAL NON-RECURRING	14.7	-76.5%	(3.3)	-122.5%	(0.9)	-72.7%	-	-100.0%
GRAND TOTAL	5,817.1	6.3%	5,704.0	-1.9%	5,931.8	4.0%	6,246.4	5.3%

General Fund Financial Summary
December 2012 Consensus Revenue Estimate (in millions of dollars)

TABLE 4

	Preliminary FY2012	Estimated FY2013	Estimated FY2014
<u>APPROPRIATION ACCOUNT</u>			
REVENUE			
Recurring Revenue			
August 2012 Consensus Forecast	\$ 5,746.3	\$ 5,687.5	\$ 5,922.1
<i>December 2012 forecast update</i>	\$ 56.1	\$ 19.9	\$ 10.6
Total Recurring Revenue	\$ 5,802.4	\$ 5,707.3	\$ 5,932.7
Nonrecurring Revenue			
December 2012 Consensus Forecast	\$ 14.7	\$ (3.3)	\$ (0.9)
<i>Adjusted for Legislation</i>	\$ (40.0)	\$ -	\$ -
<i>MVE to Road Fund (1yr Sunset)</i>			\$ (25.0)
<i>2013 Legislation Adjustments</i>		\$ (1.1)	
Total Non-Recurring Revenue (1)	\$ (25.3)	\$ (4.4)	\$ (25.9)
TOTAL REVENUE	\$ 5,777.1	\$ 5,702.9	\$ 5,906.8
APPROPRIATIONS			
Recurring Appropriations			
General Appropriation	\$ 5,431.3	\$ 5,649.6	\$ 5,882.7
Special/New Initiatives Appropriations	\$ 40.9		
2013 Regular Session - Legislation	\$ -	\$ -	\$ -
Total Recurring Appropriations	\$ 5,472.2	\$ 5,649.6	\$ 5,882.7
Nonrecurring Appropriations			
2012/2013 Regular Session	\$ 5.8	\$ 9.2	
2013 Regular Session - Capital Outlay		\$ 42.0	\$ -
2012 IT Project Funding		\$ 13.1	
2013 Deficiencies, Supplementals, and Specials	\$ 59.9	\$ 85.9	\$ -
Total Nonrecurring Appropriations	\$ 65.7	\$ 150.2	\$ -
TOTAL APPROPRIATIONS	\$ 5,537.9	\$ 5,799.8	\$ 5,882.7
Transfer to(from) Reserves (2)	\$ 239.3	\$ (96.9)	\$ 24.1
GENERAL FUND RESERVES			
Beginning Balances	\$ 503.3	\$ 754.8	\$ 653.0
Transfers from (to) Appropriations Account	\$ 239.3	\$ (96.9)	\$ 24.1
Revenue and Reversions	\$ 176.4	\$ 50.1	\$ 51.4
Appropriations, expenditures and transfers out	\$ (164.1)	\$ (55.0)	\$ (35.8)
Ending Balances	\$ 754.8	\$ 653.0	\$ 692.8
<i>Reserves as a Percent of Recurring Appropriations</i>	<i>13.8%</i>	<i>11.6%</i>	<i>11.8%</i>

Notes:

(1) FY12 includes \$18.3 million in nonrecurring revenue: \$11.4 million fund transfer for solvency, and \$6.9 million for tax amnesty. The nonrecurring revenue reductions in FY13 and FY14 reflect accelerated revenue collections due to the tax amnesty program.

(2) Pursuant to Section 10, \$40 million was transferred from the Appropriation Account to the Appropriation Contingency Fund in FY12.

TABLE 4

General Fund Financial Summary
December 2012 Consensus Revenue Estimate
RESERVE DETAIL (in millions of dollars)

	Preliminary FY2012	Estimated FY2013	Estimated FY2014
OPERATING RESERVE			
Beginning balance	\$ 275.9	\$ 417.0	\$ 320.2
BOF Emergency Appropriations/Reversions	\$ (1.3)	\$ -	\$ -
Transfer out (1)		\$ -	
Transfers from/to appropriation account (1)	\$ 239.3	\$ (96.9)	\$ 24.1
Transfer to tax stabilization reserve	\$ (96.9)	\$ -	
Ending balance	\$ 417.0	\$ 320.2	\$ 344.3
APPROPRIATION CONTINGENCY FUND			
Beginning balance	\$ 5.2	\$ 27.6	\$ 11.6
Disaster allotments	\$ (17.6)	\$ (16.0)	\$ (16.0)
Other appropriations	\$ -	\$ -	\$ -
Transfers in (1)	\$ 40.0	\$ -	\$ -
Revenue and reversions		\$ -	\$ -
Ending Balance	\$ 27.6	\$ 11.6	\$ (4.4)
Education Lock Box			
Beginning balance	\$ 47.1	\$ 38.1	\$ 38.1
Appropriations (GAA Section 5&6) (2)	\$ (9.0)	\$ -	\$ -
Transfers in (out)	\$ -	\$ -	\$ -
Ending balance	\$ 38.1	\$ 38.1	\$ 38.1
Total of Appropriation Contingency Fund	\$ 65.7	\$ 49.7	\$ 33.7
STATE SUPPORT FUND			
Beginning balance	\$ 1.0	\$ 1.0	\$ 1.0
Revenues	\$ -	\$ -	\$ -
Appropriations	\$ -	\$ -	\$ -
Ending balance	\$ 1.0	\$ 1.0	\$ 1.0
TOBACCO PERMANENT FUND			
Beginning balance	\$ 148.0	\$ 148.2	\$ 159.3
Transfers in	\$ 39.3	\$ 39.0	\$ 39.5
Appropriation to tobacco settlement program fund	\$ (19.7)	\$ (19.5)	\$ (19.8)
Gains/Losses	\$ 0.2	\$ 11.1	\$ 11.9
<i>Additional transfers to Program Fund</i>	\$ (19.7)	\$ (19.5)	\$ -
Ending balance	\$ 148.2	\$ 159.3	\$ 191.0
TAX STABILIZATION RESERVE			
Beginning balance	\$ 26.1	\$ 123.0	\$ 123.0
Transfers in	\$ 96.9	\$ -	\$ -
Ending balance	\$ 123.0	\$ 123.0	\$ 123.0
GENERAL FUND ENDING BALANCES			
	\$ 754.9	\$ 653.2	\$ 693.0
<i>Percent of Recurring Appropriations</i>	<i>13.8%</i>	<i>11.6%</i>	<i>11.8%</i>

Notes:

(1) Transfer from FY12 appropriation account to replenish the Appropriation Contingency Fund.

(2) DFA scores this appropriation as \$8 million in FY12

TABLE 5

**2013 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)**

Code		Agency	Description	Agency Request				LFC Recommendation					
				General Fund	Other State Funds	ISF/IAT	Federal Funds	Total	General Fund	Other State Funds	ISF/IAT	Federal Funds	Total
32	539	Commissioner of Public Lands	The period of time for expending the \$706 thousand appropriated from other state funds in Laws 2012 to microfilm state land records is extended through fiscal year 2014.								Language Only		
33	550	Office of the State Engineer	To provide temporary contract support for engineering services to augment dam safety review staff and reduce backlog.	250.0	-	-	-	250.0	-	-	-	-	-
34	550	Office of the State Engineer	To provide education in best management practices for dams, to develop a certification program for dam operators and to increase the number of dams that have effective operations and maintenance programs.	50.0	-	-	-	50.0	-	-	-	-	-
35	550	Office of the State Engineer	To provide temporary contract support to evaluate and implement a computer model to estimate extreme precipitation events.	75.0	-	-	-	75.0	-	-	-	-	-
36	550	Office of the State Engineer	For NM Interstate Stream Commission to maintain the accuracy and utility of the state's regional water plans.	400.0	-	-	-	400.0	-	-	-	-	-
37	550	Office of the State Engineer	For litigation costs to be used by the NM Interstate Stream Commission in FY13, FY14, and FY15. The state, through the AG, is in its second year of litigation against the US Bureau of Reclamation regarding the operation of the Rio Grande Project.	4,000.0	-	-	-	4,000.0	1,000.0	-	-	-	1,000.0
38	603	Office of African American Affairs	To conduct five African American awareness summits.	50.0	-	-	-	50.0	-	-	-	-	-
39	609	Indian Affairs Department	To replace grant funds for cultural competency training.	25.0	-	-	-	25.0	-	-	-	-	-
40	609	Indian Affairs Department	To replace grant funds for State-Tribal Summit.	50.0	-	-	-	50.0	50.0	-	-	-	50.0
41	624	Aging and Long-Term Services Department	For senior health promotion initiatives to enhance fitness and manage chronic diseases.	450.0	-	-	-	450.0	100.0	-	-	-	100.0
42	630	Human Services Department	To carryover Social Security reimbursements to pay general assistance.										
43	665	Department of Health	For Jackson lawsuit disengagement activities mandated by federal court.	2,250.3	-	374.7	-	2,625.0	2,250.3	-	374.7	-	2,625.0
44	665	Department of Health	For new 20-bed inpatient adolescent substance abuse treatment unit at Turquoise Lodge in Albuquerque.	1,000.0	-	-	-	1,000.0	-	-	-	-	-
45	667	Environment Department	To meet cost share obligations required by law for the construction, operation and maintenance of remedial systems at national priority list (NPL) hazardous waste sites that are funded through the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).	2,841.1	-	-	-	2,841.1	2,841.1	-	-	-	2,841.1
46	667	Environment Department	For the liquid waste disposal system assistance fund created by the legislature in the 2009 session to assist qualifying indigents who experience negative impacts on-site liquid waste disposal system effluent.	1,000.0	-	-	-	1,000.0	-	-	-	-	-
47	667	Environment Department	For a requested match for the clean water state revolving fund.	1,400.0	-	-	-	1,400.0	-	-	-	-	-
48	690	Children, Youth and Families Department	To provide technical and capacity building assistance in high risk home visiting investment zones.	500.0	-	-	-	500.0	500.0	-	-	-	500.0
49	705	Department of Military Affairs	To restore the department's youth challenge academy to 150 cadets.	300.0	-	-	-	300.0	1,200.0	-	-	-	-
50	790	Department of Public Safety	To allow the department to stop allocating fleet replacement within the capital outlay request and begin allocating fleet replacement within the base budget.	3,030.0	-	-	-	3,030.0	2,412.7	-	-	-	2,412.7
51	790	Department of Public Safety	To complete replacement of in-vehicle digital video recording equipment used to record traffic stops.	816.0	-	-	-	816.0	408.0	-	-	-	408.0
52	805	Department of Transportation	To extend other state funds and federal funds appropriations in the Transportation and Highway Operations Program through FY14.							Language Only			-
53	805	Department of Transportation	Infrastructure Program through FY14.							Language Only			-
54	805	Department of Transportation	To use non-obligated fund balances for maintenance.	-	35,000.0	-	-	35,000.0	-	35,000.0	-	-	35,000.0
55	805	Department of Transportation	For the state road fund to be used for major road projects statewide.	-	-	-	-	-	25,000.0	-	-	-	25,000.0
56	924	Public Education Department	For start-up funding for four early college high schools.	-	-	-	-	-	500.0	-	-	-	500.0
57	924	Public Education Department	For partnership for college and career readiness assessments - new standards based assessments infrastructure needs	8,405.1	-	-	-	8,405.1	-	-	-	-	-
58	924	Public Education Department	For a new teacher evaluation system	5,000.0	-	-	-	5,000.0	1,000.0	-	-	-	1,000.0
59	924	Public Education Department	For emergency supplemental funding for school districts.	7,000.0	-	-	-	7,000.0	400.0	-	-	-	5,000.0
60	924	Public Education Department	To transition to common core state standards (new content standards).	2,000.0	-	-	-	2,000.0	1,000.0	-	-	-	1,000.0
61	924	Public Education Department	For hold-harmless funding for funding formula changes assumed in LFC recommendation.	-	-	-	-	-	-	-	-	-	-
62	940	Public School Facilities Authority	For loan repayment for Animas School District.	-	-	-	-	-	-	172.8	-	-	172.8
63	950	Higher Education Department	To replenish the Higher Education Endowment Fund, NMSA 21-1-27, IH, to be used by universities and colleges to match grants, contracts and other awards.	-	-	-	-	-	20,000.0	-	-	-	20,000.0
64	950	Higher Education Department	For building renewal and restoration.	-	-	-	-	-	20,000.0	-	-	-	20,000.0
SPECIAL/NEW INITIATIVES TOTAL				67,038.1	36,734.1	374.7	900.0	105,046.9	84,169.6	40,419.3	374.7	250.0	125,213.6

TABLE 5

**2013 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)**

Code		Agency	Description	Agency Request				LFC Recommendation						
				General Fund	Other State Funds	ISF/IAT	Federal Funds	Total	General Fund	Other State Funds	ISF/IAT	Federal Funds	Total	
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33	550	Office of the State Engineer	To provide temporary contract support for engineering services to augment dam safety review staff and reduce backlog.	250.0	-	-	-	250.0	-	-	-	-	-	
34	550	Office of the State Engineer	To provide education in best management practices for dams, to develop a certification program for dam operators and to increase the number of dams that have effective operations and maintenance programs.	50.0	-	-	-	50.0	-	-	-	-	-	
35	550	Office of the State Engineer	To provide temporary contract support to evaluate and implement a computer model to estimate extreme precipitation events.	75.0	-	-	-	75.0	-	-	-	-	-	
36	550	Office of the State Engineer	For NM Interstate Stream Commission to maintain the accuracy and utility of the state's regional water plans.	400.0	-	-	-	400.0	-	-	-	-	-	
37	550	Office of the State Engineer	For litigation costs to be used by the NM Interstate Stream Commission in FY13, FY14, and FY15. The state, through the AG, is in its second year of litigation against the US Bureau of Reclamation regarding the operation of the Rio Grande Project.	4,000.0	-	-	-	4,000.0	1,000.0	-	-	-	1,000.0	
38	603	Office of African American Affairs	To conduct five African American awareness summits.	50.0	-	-	-	50.0	-	-	-	-	-	
39	609	Indian Affairs Department	To replace grant funds for cultural competency training.	25.0	-	-	-	25.0	-	-	-	-	-	
40	609	Indian Affairs Department	To replace grant funds for State-Tribal Summit.	50.0	-	-	-	50.0	50.0	-	-	-	50.0	
41	624	Aging and Long-Term Services Department	For senior health promotion initiatives to enhance fitness and manage chronic diseases.	450.0	-	-	-	450.0	100.0	-	-	-	100.0	
42	630	Human Services Department	To carryover Social Security reimbursements to pay general assistance.											
43	665	Department of Health	For Jackson lawsuit disengagement activities mandated by federal court.	2,250.3	-	374.7	-	2,625.0	2,250.3	-	-	374.7	-	2,625.0
44	665	Department of Health	For new 20-bed inpatient adolescent substance abuse treatment unit at Turquoise Lodge in Albuquerque.	1,000.0	-	-	-	1,000.0	-	-	-	-	-	
45	667	Environment Department	To meet cost share obligations required by law for the construction, operation and maintenance of remedial systems at national priority list (NPL) hazardous waste sites that are funded through the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).	2,841.1	-	-	-	2,841.1	2,841.1	-	-	-	-	2,841.1
46	667	Environment Department	For the liquid waste disposal system assistance fund created by the legislature in the 2009 session to assist qualifying indigents who experience negative impacts on-site liquid waste disposal system effluent.	1,000.0	-	-	-	1,000.0	-	-	-	-	-	
47	667	Environment Department	For a requested match for the clean water state revolving fund.	1,400.0	-	-	-	1,400.0	-	-	-	-	-	
48	690	Children, Youth and Families Department	To provide technical and capacity building assistance in high risk home visiting investment zones.	500.0	-	-	-	500.0	500.0	-	-	-	-	500.0
49	705	Department of Military Affairs	To restore the department's youth challenge academy to 150 cadets.	300.0	-	-	-	900.0	1,200.0	-	-	-	-	-
50	790	Department of Public Safety	To allow the department to stop allocating fleet replacement within the capital outlay request and begin allocating fleet replacement within the base budget.	3,030.0	-	-	-	3,030.0	2,412.7	-	-	-	-	2,412.7
51	790	Department of Public Safety	To complete replacement of in-vehicle digital video recording equipment used to record traffic stops.	816.0	-	-	-	816.0	408.0	-	-	-	-	408.0
52	805	Department of Transportation	To extend other state funds and federal funds appropriations in the Transportation and Highway Operations Program through FY14.					-	Language Only					-
53	805	Department of Transportation	To use non-obligated fund balances for maintenance.	-	-	-	-	-	Language Only					-
54	805	Department of Transportation	For the state road fund to be used for major road projects statewide.	-	35,000.0	-	-	35,000.0	-	35,000.0	-	-	-	35,000.0
55	805	Department of Transportation	For start-up funding for four early college high schools.	-	-	-	-	-	25,000.0	-	-	-	-	25,000.0
56	924	Public Education Department	For partnership for college and career readiness assessments - new standards based assessments infrastructure needs	-	-	-	-	-	500.0	-	-	-	-	500.0
57	924	Public Education Department	For a new teacher evaluation system	8,405.1	-	-	-	8,405.1	-	-	-	-	-	-
58	924	Public Education Department	For emergency supplemental funding for school districts.	5,000.0	-	-	-	5,000.0	1,000.0	-	-	-	-	1,000.0
59	924	Public Education Department	To transition to common core state standards (new content standards).	7,000.0	-	-	-	7,000.0	400.0	-	-	-	-	5,000.0
60	924	Public Education Department	For hold-harmless funding for funding formula changes assumed in LFC recommendation.	2,000.0	-	-	-	2,000.0	1,000.0	-	-	-	-	1,000.0
61	924	Public Education Department		-	-	-	-	-	-	-	-	-	-	-
62	940	Public School Facilities Authority	For loan repayment for Animas School District.	-	-	-	-	-	-	172.8	-	-	-	172.8
63	950	Higher Education Department	To replenish the Higher Education Endowment Fund, NMSA 21-1-27.1H, to be used by universities and colleges to match grants, contracts and other awards.	-	-	-	-	-	20,000.0	-	-	-	-	20,000.0
64	950	Higher Education Department	For building renewal and restoration.	-	-	-	-	-	20,000.0	-	-	-	-	20,000.0
SPECIAL/NEW INITIATIVES TOTAL				67,038.1	36,734.1	374.7	900.0	105,046.9	84,169.6	40,419.3	374.7	250.0	125,213.6	

TABLE 5

**2013 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)**

	Code	Agency	Description	General Fund	Other State Funds	ISF/IAT	Federal Funds	Total	General Fund	Other State Funds	ISF/IAT	Federal Funds	Total
SUPPLEMENTAL APPROPRIATIONS:													
65	218	Administrative Office of the Courts	For building lease payment shortfall in magistrate court.	592.3	-	-	-	592.3	400.0	-	-	-	400.0
66	337	State Investment Council	For professional services contracts to assist management of permanent funds.	-	4,000.0	-	-	4,000.0	-	-	-	-	-
67	370	Secretary of State	For 2012 general election expenses and to reimburse certain counties for 2012 primary election recount expenses.	1,407.9	-	-	-	1,407.9	1,100.0	-	-	-	1,100.0
68	379	Public Employee Labor Relations Board	To pay overdue invoices to the Department of Information Technology.	9.8	-	-	-	9.8	-	-	-	-	-
69	420	Regulation and Licensing Department	To repay a NM Board of Finance loan related to a fraudulent title and escrow company.	300.0	-	-	-	300.0	-	-	-	-	-
70	521	Energy, Minerals and Natural Resources Department	For staffing of safety-sensitive positions at State Parks and the purchase of propane tanks, conversion costs and propane compatible appliances for Navajo State Park.	500.0	-	-	-	500.0	100.0	-	-	-	100.0
71	605	Martin Luther King, Jr. Commission	To implement anti-bullying curriculum and leadership conference.	38.0	-	-	-	38.0	-	-	-	-	-
72	647	Developmental Disabilities Planning Council	For guardianship services for emergency cases for guardians of last resort; to revamp internal controls for the guardianship database; and for the following language: "Any unexpended balance remaining at the end of fiscal year 2013 from the guardianship program in the developmental disabilities planning council shall not revert but may be expended in fiscal year 2014 to support the guardianship program of the developmental disabilities planning council."	112.0	-	-	-	112.0	112.0	-	-	-	112.0
73	665	Department of Health	For 8 additional FTE to assist with the administration and implementation of the restructured developmental disabilities (DD) Medicaid waiver and funding for a DD client web-based data management system.	760.0	-	664.1	-	1,424.1	-	-	-	-	-
74	790	Department of Public Safety	To cover higher than projected fuel costs for FY13.	250.0	-	-	-	250.0	-	-	-	-	-
75	790	Department of Public Safety	For the governor's security detail, increased fleet maintenance costs, and new food service contract for the second police recruit school.	425.0	-	-	-	425.0	-	-	-	-	-
SUPPLEMENTAL TOTAL				4,395.0	4,000.0	664.1	-	9,059.1	1,712.0	-	-	-	1,712.0
DEFICIENCY APPROPRIATIONS:													
76	259	Ninth Judicial District Attorney	To correct share balances.	150.0	-	-	-	150.0	-	-	-	-	-
77	491	Office of Military Base Planning	To cover a deficiency in personal services and employee benefits.	3.9	-	-	-	3.9	3.9	-	-	-	3.9
78	795	Department of Homeland Security and Emergency Management	To cover deficiencies related to grants.	812.7	-	-	-	812.7	-	-	-	-	-
DEFICIENCY TOTAL				966.6	-	-	-	966.6	3.9	-	-	-	3.9
SPECIAL/NEW INITIATIVE, SUPPLEMENTAL & DEFICIENCY TOTAL				72,399.7	40,734.1	1,038.8	900.0	115,072.6	85,885.5	40,419.3	374.7	250.0	126,929.5

TABLE 6

FY14 IT PROJECT FUNDING REQUESTS

(In Thousands)

System Replacement / Enhancements			Agency Request			DoIT Recommendation			LFC Recommendation ¹		
Code	Agency	System Description	GF	OSF	Total	GF	OSF	Total	GF	OSF	Total
218	Administrative Office of the Courts	Odessey for Bern. Cty Metro Court	310.0		310.0	310.0		310.0	310.0		310.0
218	Administrative Office of the Courts	Video Mtgs/Arraignment Network	298.0		298.0	298.0		298.0	0.0		0.0
218	Administrative Office of the Courts	Odyssey for NM Supreme Court and Court of Appeals	220.0		220.0	220.0		220.0	220.0		220.0
333	Taxation and Revenue Department	MVD Driver and Vehicle System	6,679.0		6,679.0	750.0		750.0	0.0		0.0
350	General Services Department	SHARE Benefits/COBRA		1,893.0	1,893.0		1,893.0	1,893.0		100.0	100.0
350	General Services Department	Risk Management Information System		1,466.0	1,466.0		0.0	0.0		100.0	100.0
366	Public Empl Retirement Assoc	Upgrade Retirement Info Online (RIO) System		2,800.0	2,800.0		0.0	0.0		2,800.0	2,800.0
369	State Commission of Public Records	Centralized Electronic Records Repository	822.4		822.4	822.4		822.4	822.4		822.4
370	Secretary of State	Replacement of SOS Knowledgebase Application (SOSKB)	1,215.0		1,215.0	1,215.0		1,215.0			0.0
394	State Treasury Office	Investments Accounting and Reporting System Upgrade/Replacement	1,950.0		1,950.0	1,950.0		1,950.0	1,950.0		1,950.0
420	Regulation and Licensing Dept.	Construction Compliance Tracking Insurance Division Electronic Application Licensing (e-IDEAL) Phase II	213.9		213.9	213.9		213.9	186.2		186.2
430	Public Regulation Commission	Replace Advanced Electronic Gaming Information System (AEGIS)	2,500.0	1,554.0	1,554.0		1,554.0	1,554.0	0.0		0.0
465	Gaming Control Board	Water Rights System Business Process Management		400.0	400.0	2,500.0		2,500.0	2,500.0		2,500.0
550	Office of the State Engineer	Data Network Infrastructure	750.0		750.0	0.0		0.0	0.0		0.0
665	Children, Youth, and Families Department	Enterprise Provider Information Constituent Services (EPICS) Phase III	3,454.2		3,454.2	3,454.2		3,454.2	3,454.2		3,454.2
690	Children, Youth, and Families Department	Configuration of SHARE Capital Asset and A/R modules	710.0		710.0	0.0		0.0	355.0		355.0
790	Department of Public Safety	Computer-aided Dispatch and Records Management System	2,850.0		2,850.0	2,850.0		2,850.0	2,850.0		2,850.0
790	Department of Public Safety	Western Identification Network	450.0		450.0	450.0		450.0	450.0		450.0
790	Department of Public Safety	Satellite Modem	100.0		100.0	0.0		0.0	0.0		0.0
790	Department of Public Safety	Criminal Justice Info System	700.0		700.0	0.0		0.0	0.0		0.0
790	Department of Public Safety	Traffic Records Repository	250.0		250.0	0.0		0.0	0.0		0.0
790	Department of Public Safety	Court Disposition Integration	500.0		500.0	0.0		0.0	0.0		0.0

TABLE 6

System Replacement / Enhancements			Agency Request			DoIT Recommendation			LFC Recommendation ¹		
Code	Agency	System Description	GF	OSF	Total	GF	OSF	Total	GF	OSF	Total
790	Department of Public Safety	New Mexico Fast ID	1,000.0		1,000.0	0.0		0.0	0.0		0.0
790	Department of Public Safety	Law Enforcement National Data Exchange	750.0		750.0	0.0		0.0	0.0		0.0
TOTAL			\$25,722.5	\$8,113.0	\$33,835.5	\$15,033.5	\$3,847.0	\$18,880.5	\$13,097.8	\$3,400.0	\$16,497.8
Agency Request											
		The period of time for expending the \$8 million appropriated from MVD cash balances and revenues contained in Laws 2009 as extended by Laws 2011 to replace the 30-year-old common business oriented language-based driver and vehicle systems is extended through fiscal year 2014.									
333	Taxation and Revenue Department	The period of time for expending the \$3.5 million appropriated by Laws 2011 from the educational retirement fund to complete the upgrade of the integrated retirement information system is extended through fiscal year 2014.									
352	Educational Retirement Board	The period of time to expend the \$6.4 million appropriated from the computer enhancement fund and the \$8 million in federal funds contained in Laws 2009 as extended by Laws 2011 to continue replacing the income support division integrated services delivery system is extended through fiscal year 2015.									
630	Human Services Department	The period of time for expending the remaining balance of federal funds available through the american recovery and reinvestment act contained Laws 2010 to complete improvement to the unemployment insurance program is extended through fiscal year 2014.									
631	Workforce Solutions Department	The period of time for expending the remaining balance of federal funds available through the american recovery and reinvestment act contained Laws 2010 to complete improvement to the unemployment insurance program is extended through fiscal year 2014.									

1. Agency expenditure of FY14 appropriations for agency IT projects shall be contingent on review and approval by the Information Technology Commission.



NEW MEXICO STATE
PRINTING & GRAPHICS
A DIVISION OF GENERAL SERVICES DEPARTMENT